IFRS Accounting for Business Combinations and Asset Acquisitions

Accounting Under the Amended Definition of a Business

January 2020

Purpose and Scope

The purpose of this guide is to outline the accounting treatment for an acquisition of a business in accordance with IFRS 3 *Business Combinations* (IFRS 3) and, where a transaction does not meet the definition of a business, accounting for an acquisition of assets in accordance with IFRS 3.2(b) or other standards. Accurately assessing whether a transaction meets the definition of a business combination is an integral part of the accounting process, as the accounting for business combinations vs. asset acquisitions can have a significant impact on the entity's financial reporting.

IFRS 3 establishes principles and requirements for how the acquirer:

- Recognizes and measures the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree in its financial statements;
- Recognizes and measures any goodwill acquired in the business combination or any gain realized from a bargain purchase; and,
- Determines the necessary disclosures to enable users to evaluate the nature and financial effects of the business combination.

IFRS 3 applies to transactions or events that meet the definition of a business combination. The following items do not fall under this standard:

- Accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
  - This falls within the scope of IFRS 11 *Joint Arrangements*.
- An acquisition of an asset or a group of assets that do not meet the definition of a business.
  - More detailed discussion on the accounting for such transactions is provided under the Accounting for an Asset Acquisition section of this guide.
- A combination between entities or businesses under common control.
  - More detailed discussion on the accounting for such transactions is provided under the Common Control section of this guide.
- Acquisition by an investment entity.
  - The acquisition by an investment entity of an investment in a subsidiary that is required to be measured at fair value through profit or loss falls within the scope of IFRS 10 *Consolidated Financial Statements.*

In October 2018, the International Accounting Standards Board ("IASB") issued *Definition of a Business – Amendments to IFRS 3*. The amendments clarify the definition of a business and provide application guidance to distinguish between a business combination and an asset acquisition. These amendments to IFRS are likely to result in more acquisitions being accounted for as asset acquisitions. The IFRS 3 amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

Insights

- This guide considers the amended definition of a business and the related application guidance. The conclusion of whether a transaction constitutes a business combination, or an asset acquisition, may be different under the amended definition of a business. If an entity early adopts the amendments to IFRS 3, the entity must ensure that any previously reported acquisitions during the reporting period are also classified in accordance with the amended standard. As such, restatement may be required for acquisitions reported in quarterly financial statements if the guidance in the amended IFRS 3 results in a different classification than under the previous definition.

Definitions

Acquiree - The business or businesses that the acquirer obtains control of in a business combination.

Acquirer - The entity that obtains control of the acquiree.

Acquisition date – The date on which the acquirer obtains control of the acquiree.

Business – An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest), or generating other income from ordinary activities.

Insights

- The previous definition of a business under IFRS 3 was, "An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants."

Business combination – A transaction or other event in which an acquirer obtains control of one or more businesses.

Control of an investee – An investor controls an investee when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Fair value – The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Non-controlling interest – The equity in a subsidiary not attributable, directly or indirectly, to a parent.

Identifying a Business Combination

Before applying the recognition and measurement guidance in IFRS 3, management must first determine if the assets acquired and liabilities assumed meet the definition of a business at the acquisition date in order to assess whether the transaction or event is a business combination. Accounting for a transaction or event as an asset acquisition versus a business combination may have a material impact on the financial statements and disclosures due to the different accounting treatment required. Please refer to Appendix A for a summary flowchart that shows the steps for evaluating whether the transaction or event is a business combination or an asset acquisition.

What is a Business Combination?

A business combination is a transaction or event in which an acquirer obtains control of one or more businesses. A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest), or generating other income from ordinary activities.

An acquirer may obtain control of an acquiree in different ways, such as by:

- Transferring cash, cash equivalents or other assets (including net assets that constitute a business);
- Incurring liabilities;
- Issuing equity interests;
- Providing more than one type of consideration; or,
- A transaction or event without any consideration transferred, such as via a contractual arrangement *[IFRS 3.B5]*.

The concept of control is discussed in more detail under the Control Assessment in Accordance with IFRS 10 section of this guide.

Structure of a Business Combination

Business combinations can be structured in different ways for legal, tax, or other reasons *[IFRS 3.B6]*.

Examples of ways business combinations may be structured *[IFRS 3.B6]*
One or more businesses become subsidiaries of an acquirer or the net assets of one or more businesses are legally merged into the acquirer.
One combining entity transfers its net assets, or its owners transfer their equity interests, to another combining entity or its owners.
All of the combining entities transfer their net assets, or the owners of those entities transfer their equity interests, to a newly formed entity (i.e., roll-up or put-together transaction).
A group of former owners of one of the combining entities obtains control of the combined entity.

The legal form used for a business combination may obscure the actual economic substance of the transaction. An example of such a transaction is a reverse acquisition. Detailed guidance on such transactions is provided in the Reverse Acquisitions section of this guide. It is essential that the economic substance of the transaction is understood to account for the transaction appropriately. This ensures that the accounting for the transaction is based on the substance of the events that have occurred, rather than the legal structure.

Business Combination Achieved in Stages

An acquirer may obtain control of an acquiree by acquiring an additional interest in an entity for which it held an equity interest immediately before the acquisition. Such a scenario is considered a business combination achieved in stages *[IFRS 3.41]*.

Insights

- A business combination achieved in stages is also referred to as a step-acquisition *[IFRS 3.41]*.

In such a business combination, the acquirer remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and recognizes the resulting gain/loss, if any, in profit or loss or other comprehensive income, as appropriate *[IFRS 3.42]*.

Insights

- When an entity obtains control of a business that is a joint operation and had rights to the assets and obligations for the liabilities relating to that joint operation immediately before the acquisition date, the entity must apply the requirements for a business combination achieved in stages. The acquirer must remeasure its entire previously held interest in the joint operation to its acquisition-date fair value *[IFRS 3.42 - .42A].*

Optional Test to Identify Concentration of Fair Value

IFRS 3 sets out an optional concentration test that enables an acquirer to conduct a simplified assessment of whether an acquired set of activities and assets is not a business *[IFRS 3.B7A]*. To respond to concerns that there was limited guidance within the existing IFRS 3 standard, the IASB added this optional concentration test to assist in determining whether an acquired set of activities and assets is not a business.

The concentration test focuses on assessing the concentration of the fair value of gross assets acquired. If substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, the concentration test is met, and the transaction is determined not to be a business combination. IFRS 3 does not provide a definition of "substantially all", however, this term is often considered to mean at least 90% in practice.

Gross assets acquired excludes cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities *[IFRS 3.B7B(a)]*. The fair value of the gross assets acquired includes any consideration transferred (plus the fair value of non-controlling interests and the fair value of any previously held interest) in excess of the fair value of net identifiable assets acquired *[IFRS 3.B7B(b)]*.

Insights

- The IASB focused on gross assets rather than net assets for the concentration test as the nature of financing does not impact whether an acquired set of activities and assets includes a substantive process.

For the purpose of the concentration test, a single identifiable asset includes any individual asset or group of assets that would be recognized and measured as a single identifiable asset in a business combination *[IFRS 3.B7B(c)]*.

A tangible asset that is attached to another tangible asset should be considered a single identifiable asset if it cannot be physically removed and used separately without incurring significant costs, or a significant decline in utility or fair value *[IFRS 3.B7B(d)]*. For example, land and building would generally be recognized as separate assets in a business combination. However, if the building cannot be reasonably removed from the land and used separately, the land and building would be considered a single identifiable asset when performing the concentration test *[IFRS 3 Illustrative Example A]*.

The following are **not** considered similar assets:

- A tangible asset and an intangible asset;
- A financial asset and a non-financial asset;
- Different classes of identifiable intangible assets;
- Different classes of tangible assets;
- Different classes of financial assets; and,
- Identifiable assets within the same asset class that have significantly different risks *[IFRS 3.B7B(f)].*

If the concentration test is not met or if the acquirer decides not to perform the optional concentration test, the acquirer must perform the assessment set out in IFRS 3 as described in the Elements of a Business section of this guide to determine whether or not the acquired set of activities and assets is a business *[IFRS 3.B7A(b)]*.

Example: Identifying Similar Assets – Acquisition in the Pharmaceutical Industry

[This example has been modified from the IFRS 3 Illustrative Examples (Example B).]

Green Inc. buys 100% of Verte Ltd.'s common shares. Verte Ltd.'s operations include:

A. The rights to an in-process research and development project to develop typhoid medication, which is in its final testing phase (Project T). Project T includes the know-how, formulas, and processes needed to take the product to market.
B. A Phase 3 compound developed to treat diabetes.

Both Project T and the Phase 3 compounds have approximately equal fair value.

No employees or other assets, processes, or activities are acquired.

Green Inc. has elected to apply the optional concentration test. Are Project T and the Phase 3 compounds similar assets?

Assessment: For the purpose of the concentration test, a single identifiable asset includes any individual asset or group of assets that would be recognized and measured as a single asset in a business combination. Green Inc. has acquired Project T and the Phase 3 compounds. The assets are not similar because the risk associated with creating outputs from each asset differ significantly. This is because each asset is intended to treat different medical conditions, have different potential customer bases, and have different expected markets and regulatory risks.

Example: Identifying Similar Assets – Acquisition in the Oil and Gas Industry

Company D is an oil and gas production company that operates a large portfolio of working interests in proved producing wells. Company D acquires working interests in two properties from Company C.

Property #1 is a proved developed producing well, with a primary commodity of crude oil and a fair value of $900,000.

Property #2 is a proved undeveloped well, with a primary commodity of crude oil and a fair value of $1,500,000. There are significant estimated costs to be incurred to develop this well.

Company D has elected to apply the optional concentration test. Are the acquired assets similar?

Assessment: For the purpose of the concentration test, a single identifiable asset includes any individual asset or group of assets that would be recognized and measured as a single asset in a business combination. Company D has acquired two different types of properties. Although the primary commodity for both properties is crude oil, the substantial costs to be incurred to develop Property #2 indicate that the business and operational risks of that well differ significantly from Property #1. Based on these facts, Company D concludes that the fair value of the gross assets acquired is not concentrated in a single asset or group of similar assets and the concentration test has not been met.

Example: Identifying Similar Assets – Acquisition in the Cannabis Industry

Entity A acquired 100% of the shares of Entity B. At the time of acquisition, Entity B had licensing rights for the exclusive use of Entity C's technology to make oil-based cannabis products. Entity B also had a third-party service agreement with Entity C that provides consulting and marketing services for the development and commercialization of cannabis products using Entity C's technology. No other assets, processes, or employees were transferred.

Entity A has elected to apply the optional concentration test. Are the acquired assets similar?

Assessment: For the purpose of the concentration test, a single identifiable asset includes any individual asset or group of assets that would be recognized and measured as a single asset in a business combination. In this transaction, Entity A acquired both the licensing rights and the consulting and marketing agreement with Entity C. In determining whether the assets are similar, Entity A must assess the nature and risk profile of the assets associated with managing and creating outputs from those assets. There is significant judgment required in assessing whether the risk profile of the consulting and marketing agreement and licensing rights is similar, including assessing such factors as ownership rights over future development of the technology as well as the interdependency of the future value of the assets.

The acquired assets would be considered similar only if the risks associated with creating outputs from the consulting and marketing agreement and licensing rights is assessed to be similar.

Example: Determining fair value of gross assets acquired

[This example has been modified from the IFRS 3 Illustrative Examples (Example I).]

Background

ABC Company holds a 25% interest in another entity (Acquiree). At the acquisition date, the ABC Company obtains control of Acquiree by acquiring an additional 40% interest. Acquiree's assets and liabilities on the acquisition date are:

(a) equipment with a fair value of $1,500
(b) a trademark with a fair value of $1,200
(c) cash with a fair value of $300
(d) payables with a fair value of $2,100
(e) deferred tax liabilities of $480 arising from temporary differences associated with the equipment and the trademark

ABC Company pays $600 for the additional 40% interest in Acquiree. ABC Company calculates that the acquisition date fair value of Acquiree is $1,500, the fair value of the non-controlling interest in Acquiree is $525 (35% x $1,500), and that the fair value of the previously held interest is $375 (25% x $1,500).

Analysis:

ABC Company determines that they will perform the optional concentration test per IFRS 3.B7B. To do so, ABC Company first assesses the fair value of the gross assets acquired. ABC Company calculates the fair value of the gross assets acquired as *[IFRS 3.B7B(b)]*:

(a) the fair value of the equipment ($1,500); plus
(b) the fair value of the trademark ($1,200); plus
(c) the excess ($600) of:
 (i) the sum ($1,500) of the consideration transferred ($600), plus the fair value of the non-controlling interest ($525), plus the fair value of the previously held interest ($375); over
 (ii) the fair value of the net identifiable assets acquired ($900 = $1,500 fair value of equipment + $1,200 fair value of trademark + $300 cash – $2,100 fair value of payables).

The calculation of the excess of consideration over the net identifiable assets acquired is similar to how goodwill is calculated in accordance with IFRS 3. By performing the calculation in this way, the concentration test reflects the value of any substantive processes acquired in the transaction.

The fair value of gross assets acquired excludes the following in accordance with IFRS 3.B7B(a):
(a) the fair value of the cash acquired ($300) and deferred tax assets (nil, in this example); and,
(b) the deferred tax liability ($900). By excluding this amount, the excess calculated ($600) does not include goodwill resulting from deferred tax liabilities.

Therefore, the fair value of the gross assets acquired is $1,500 + $1,200 + $600 = $3,300.

Alternatively, the fair value of the gross assets acquired of $3,300 may also be determined as follows:
(a) the total ($3,600) obtained by adding:
 (i) the amount of consideration paid ($600), plus the fair value of the non-controlling interest ($525) plus the fair value of the previously held interest ($375); to
 (ii) the fair value of the liabilities assumed (other than deferred tax liabilities) ($2,100); less
(b) the cash acquired ($300); less
(c) deferred tax assets acquired (nil in this example). It is only necessary to determine the amount of deferred tax assets to be excluded if including the deferred tax assets could lead to the concentration test not being met *[IFRS 3.IE123(c)]*.

After calculating the fair value of the gross assets acquired, ABC Company must determine whether the fair value was concentrated in a single identifiable asset or group of similar identifiable assets to complete the concentration test.

Per IFRS 3.B7B(f)(i), tangible and intangible assets are not considered to be similar assets. As such, the equipment and trademark must be analysed separately for the purposes of the concentration test. Before you can complete the optional concentration test, you must know the fair value of each single identifiable asset or group of similar identifiable assets acquired.

The calculation of the concentration test is as follows:

	Fair Value [A]	Total Fair Value of Gross Assets [B]	Fair value concentration [A/B]
Equipment	$1,500	$3,300	45%
Trademark	$1,200	$3,300	36%

The fair value of the gross assets acquired is not concentrated in a single identifiable asset and, therefore, the concentration test is not met. ABC Company will have to apply the detailed guidance under IFRS 3 to determine whether this transaction is a business combination or an asset acquisition.

Elements of a Business

If the acquirer decides not to perform the optional concentration test or the concentration test is not met, the acquirer must perform an assessment of whether the acquired set of activities and assets is a business by looking at the elements within the transaction. The application guidance in IFRS 3 describes the elements of a business as inputs and processes applied to those inputs that have the ability to contribute to the creation of outputs. By assessing whether an acquired set of activities and assets has these elements, the acquirer can determine whether the transaction is a business combination.

The following provides a description of inputs, processes, and outputs:

Input	Process	Output
• Any economic resource that creates outputs, or has the ability to contribute to the creation of outputs, when one or more processes are applied to it. • E.g. non-current assets (including intangible assets or rights to use non-current assets), intellectual property, the ability to obtain access to necessary materials or rights and employees *[IFRS 3.B7(a)]*	• Any system, standard, protocol, convention or rule that, when applied to an input or inputs, creates outputs or has the ability to contribute to the creation of outputs. • E.g. strategic management processes, operational processes and resource management processes. • These processes typically are documented, but the intellectual capacity of an organized workforce having the necessary skills and experience following rules and conventions may provide the necessary processes that are capable of being applied to inputs to create outputs *[IFRS 3.B7(b)]*	• The result of inputs and processes applied to those inputs that provide goods or services to customers, generate investment income (such as dividends or interest) or generate other income from ordinary activities. • E.g. goods and services provided to customers, income arising from contracts *[IFRS 3.B7(c)]*

Insights

- Accounting, billing, payroll and other administrative systems are not processes used to create outputs *[IFRS 3.B7(b)]*.

Businesses usually have outputs; however, outputs are not required to meet the definition of a business. To be considered a business, an integrated set of activities and assets must include an input and substantive process that together significantly contribute to the ability to create outputs *[IFRS 3.B8]*. Further, even though an acquired set of activities and assets has outputs, the continuation of those outputs alone does not necessarily prove that both an input and a substantive process have been acquired *[IFRS 3.B8A]*. The entity will need to evaluate whether a substantive process has been acquired, as described further in Assessing Whether an Acquired Process is Substantive section of this guide.

Insights

- Before the amendments to IFRS 3, outputs were defined as "the result of inputs and processes applied to those inputs that provide or have the ability to provide a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants." The IASB concluded that reduced costs and benefits provided directly to investors did not help to distinuish between an acquisition of a business or a group of assets. Therefore, in the amended IFRS 3, the definition of an output has been narrowed to reflect that outputs result from processes applied to inputs that "provide goods or services to customers, generate investment income (such as dividends or interest) or generate other income from ordinary activities." *[IFRS 3.BC21S(b)]*

The elements of a business may vary depending on the industry, structure and development stage of the entity. A well-established business usually has many different types of inputs, processes and outputs. A business in its early stages of development will often have a few inputs and processes and may only have one output (or none). Most businesses will have liabilities, but liabilities are not required to qualify as a business. An acquired set of activities and assets that is not a business might still have liabilities *[IFRS 3.B9]*.

Insights

- Note that provincial regulators have their own definition of a business that may not align with the IFRS 3 amended definition of a business. Companies may find the need to file a Business Acquisition Report (BAR) with regulators even when an acquisition has been treated as an asset acquisition for accounting purposes. The OSC released Staff Notice 51-728 which includes a section that discusses the implications of these differences.

When determining whether a particular set of activities and assets is a business, the assessment is based on whether the integrated set is capable of being conducted and managed as a business by a market participant. The assessment is not based on whether the seller has previously operated the set as a business or whether the acquirer intends to operate the set as a business *[IFRS 3.B11]*.

Insights

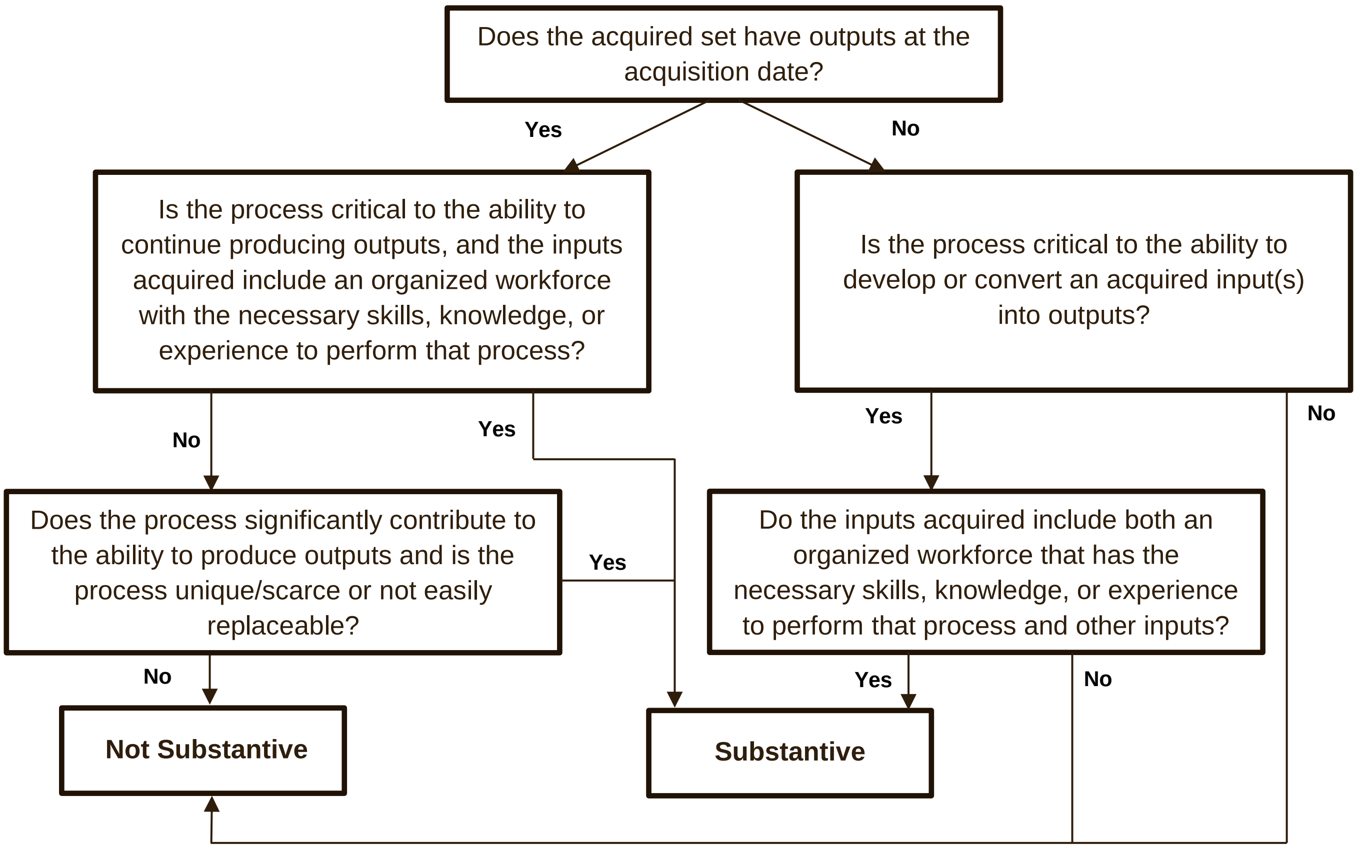
- IFRS 3 previously specified that a business need not include all of the inputs or processes that the seller used in operating that business if market participants are capable of acquiring the business and continuing to produce outputs (e.g. by integrating the business with their own inputs and processes).

  The IASB has now removed the reference of integrating the business with their own inputs and processes since it is challenging to objectively assess whether market participants would be capable of performing such an integration. Instead, the IASB has focused on whether the inputs and substantive processes acquired are considered to significantly contribute to the creation of outputs *[IFRS 3.BC21H - BC21I]*.

Assessing Whether an Acquired Process is Substantive

Determining whether an acquired process is substantive is a critical step in distinguishing a business combination from an asset acquisition. To determine whether an acquired process is substantive, IFRS 3 provides two sets of criteria depending on whether the acquired activities and assets have outputs at the acquisition date.

If the acquired set of activities and assets already has outputs as at the date of the acquisition, the presence of outputs provides some indication that the acquisition is a business. However, there are instances when the inputs and processes are not creating outputs at the acquisition date (e.g. start-up enterprises or junior mining companies in the exploratory phase). In these cases, the lack of outputs indicates that more persuasive evidence will be required to conclude on whether the acquisition is a business *[IFRS 3.BC21M]*.



When there are no outputs at the acquisition date

For a set of activities and assets that does not have outputs at the acquisition date, an acquired process is considered substantive if:

a) The process is critical to the ability to develop or convert an acquired input or inputs into outputs; and,
b) The inputs acquired include both an organized workforce that has the necessary skills, knowledge, or experience to perform that process (or group of processes) and other inputs that the organized workforce could develop or convert into outputs. Some examples of other inputs may include:
    i) Intellectual property that could be used to develop a good or service;
    ii) Other economic resources that could be developed to create outputs; or,
    iii) Rights to obtain access to necessary materials or rights that enable the creation of future outputs (e.g. technology, in-process research and development projects, real estate, and mineral interests) *[IFRS 3.B12B].*

Example: Set of activities and assets that does not produce outputs at the acquisition date

Dispensary A has a license to cultivate, process, and sell cannabis for medicinal purposes in B.C., Canada. In order to expand its retail operations, Dispensary A acquires 100% of the outstanding shares of Dispensary B. Dispensary B is in the process of getting a cannabis license in Ontario. The license to produce, cultivate, process, and sell cannabis in Ontario requires provincial government approval. The senior management team of Dispensary B includes John Kim, an expert in cultivating cannabis, and Brian Dane, who has strong links in the market to sell cannabis. Both John and Brian are appointed to senior management of Dispensary A after the acquisition. No other assets have been transferred as part of the acquisition.

Does the acquired set of activities and assets include substantive process(es)?

Assessment: Since the acquired set of activities and assets does not have outputs, the acquired process will be considered substantive if:

(a) The process is critical to the ability to convert an acquired input or inputs into outputs. In this case, the only inputs are employees. No process critical to the ability to cultivate and sell cannabis has been acquired.

(b) The inputs acquired consists of an organized workforce and other inputs that the organized workforce could develop or convert into outputs. The determination of whether the in-process cannabis license is an acquired input requires the application of professional judgment based on the specific case facts. The two members of senior management possess the skills, knowledge and experience to perform a process, however, no critical process has been acquired.

Consequently, no substantive process has been acquired and the transaction is an asset acquisition.

When there are outputs at the acquisition date

For a set of activities and assets that has outputs at the acquisition date (i.e. provides goods and services, generates investment income, or income from ordinary activities), an acquired process is considered substantive if:

a) It is critical to the ability to continue producing outputs, and the inputs acquired include an organized workforce with necessary skills, knowledge or experience to perform that process or group of processes; or,
b) It significantly contributes to the ability to continue producing outputs and is considered unique or scarce, or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs *[IFRS 3.B12C].*

Example: Set of activities and assets that produces outputs at the acquisition date

[This example has been modified from the IFRS 3 Illustrative Examples (Example G)]

Through a transaction with Lee Inc., Zee Co. acquired an exclusive licence to distribute Lee Inc.'s patented technology, as well as ongoing customer contracts, customer relationships, finished goods inventories, marketing materials, specialized equipment, supply contracts, and documented manufacturing processes and protocols for the patented technology. No employees, other assets, other processes, or other activities are transferred.

Does the acquired set of activities and assets include substantive process(es)?

Assessment: Since the acquired set of activities and assets has outputs, an acquired process will be considered substantive if:

a) It is critical to the ability to continue producing outputs, and the inputs acquired include an organized workforce with necessary skills, knowledge or experience to perform that process or group of processes; or
b) It significantly contributes to the ability to continue producing outputs and is considered unique or scarce, or cannot be replaced without significant cost, effort or delay in the ability to continue producing outputs.

The acquired set of activities and assets does not include an organized workforce and, therefore, does not meet criterion (a) above. However, the acquired manufacturing processes are substantive because the processes significantly contribute to the ability to continue producing outputs when applied to the acquired inputs, such as raw material supply contracts and specialized equipment. Furthermore, the manufacturing processes acquired are sufficiently specialized to the production of the patented technology that they are considered unique and costly to replace. The inputs and substantive processes together significantly contribute to the ability to create outputs and, therefore, the transaction is a business combination.

Other considerations for the assessment of substantive processes

An organized workforce is an input, but it alone does not constitute a business. As such, simply acquiring a few employees in the acquisition will not automatically lead to a conclusion that the set of activities and assets is a business. If it would be difficult to replace an acquired organized workforce, this may provide evidence that the acquired organized workforce performs a process critical to the ability to create outputs *[IFRS 3.B12D (b)].*

In addition, an "acquired contract" is typically an input and not a process. An exception exists if the contract provides the holder with access to an organized workforce, such as outsourced property management or outsourced asset management. The acquirer must evaluate such contracts to assess whether they provide the acquirer with control over a substantive process, considering key terms such as nature of services provided, duration of the services, and renewal terms *[IFRS 3.B12D (a)].*

A process (or group of processes) is not critical if it is ancillary or minor within the context of all the processes required to create outputs *[IFRS 3.B12 D (c)].* Whether a process is critical directly impacts the assessment of whether that process is substantive.

Example: Analyzing the elements of a business in a research and development entity

[This example has been modified from the IFRS 3 Illustrative Examples (Example C)]

Entity A acquired a legal entity, Entity B. Entity B's operations include: research and development activities on several pharmaceutical compounds under development; senior management, scientists and doctors who have necessary skills and knowledge to continue work on the products under development; a corporate office; a research lab; and lab equipment. Entity B has not yet generated revenue and has no products ready to be introduced to the market.

Is the acquisition of Entity B a business combination? Entity A has elected not to apply the concentration test under IFRS 3.

Assessment: To be considered a business, an integrated set of activities and assets must include an input and substantive process that together significantly contribute to the ability to create outputs. Since Entity B does not have outputs at the acquisition date, assess the transaction against IFRS 3.B7, which requires a business to have the following three elements:

Inputs – Entity B has an organized workforce, in-process research and development projects, real estate, corporate office, research lab, and lab equipment.

Processes - Since the acquired set of activities and assets does not have outputs, an acquired process will be considered substantive if:

a) The process is critical to the ability to develop or convert an acquired input or inputs into outputs; and,

b) The inputs acquired include both an organized workforce that has the necessary skills, knowledge, or experience to perform that process (or group of processes) and other inputs (e.g. technology, in-process research and development projects, real estate and mineral interests) that the organized workforce could develop or convert into outputs.

Entity A acquired an organized workforce (senior management, scientists, doctors) that has knowledge of Entity B's ongoing projects and is critical to the ability to develop or convert the in-process research and development projects into outputs. The abilities of the acquired organized workforce indicate that they have the necessary skills and experience to execute the necessary processes that are capable of being applied to the inputs to create outputs.

As such, Entity A concludes that the acquired substantive processes and the acquired inputs significantly contribute to the ability to create outputs. Therefore, Entity A has acquired a business.

Example: Analyzing the elements of a business in a mining entity

Entity Y, mining company, entered into an agreement to acquire 100% of the outstanding common shares of Entity Z through a stock purchase agreement. Entity Z owns a mineral exploration property that is not operational. The acquired assets included the required permits for mining along with mining infrastructure. No other assets or employees were transferred.

Does the acquisition constitute a business combination? Entity Y elected not to perform the optional concentration test.

Assessment: Assessing the terms of the transaction under the requirements of IFRS 3.B7, a business consists of three elements: inputs, processes, and outputs.

Inputs – The inputs acquired by Entity Y include the mining permits and mining infrastructure.

Processes - Since the acquired set of activities and assets does not have outputs, an acquired process will be considered substantive if:

a) The process is critical to the ability to develop or convert an acquired input or inputs into outputs; and,
b) The inputs acquired include both an organized workforce that has the necessary skills, knowledge, or experience to perform that process (or group of processes) and other inputs (e.g. technology, in-process research and development projects, real estate and mineral interests) that the organized workforce could develop or convert into outputs.

Entity Y did not acquire an organized workforce and, given that mine is not operational, there are no identifiable processes in place.

To be considered a business, an integrated set of activities and assets must include an input and substantive process that together significantly contribute to the ability to create outputs. Since Entity Y did not acquire a substantive process, the acquisition is not a business combination.

Accounting for an Asset Acquisition

Once the nature of the transaction has been established, the acquirer can determine the appropriate accounting treatment. If it has been determined that the assets acquired do not meet the definition of a business, the transaction is accounted for as an asset acquisition. In such cases, the acquirer identifies and recognizes the individual identifiable assets acquired and liabilities assumed. The cost of the group is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction or event will not give rise to goodwill *[IFRS 3.2(b)].* Acquisitions that qualify as a business combination are accounted for using the acquisition method in accordance with IFRS 3 *[IFRS 3.4]*.

Insights

- When determining the initial measurement of an asset acquisition, the acquirer must assess both the fair value of the consideration paid as well as the fair value of each individual asset acquired and liability assumed. The consideration is presumed to be equal to the fair value of the net assets acquired unless there is evidence to the contrary. The fair value of the consideration paid determines the cost to be allocated over the group of assets acquired and liabilities assumed. The fair values of the individual assets and liabilities are used to determine the proportional amount of that cost to be allocated to the identifiable assets and liabilities that make up the transaction.

This table outlines the key differences between the two methods:

	Business Combination	Asset Acquisition
Assets Acquired & Liabilities Assumed	Measured at fair value at the acquisition date *[IFRS 3.18]*.	Recognized in accordance with the requirements of applicable IFRSs. The cost of purchase is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase *[IFRS 3.2(b)]*.
Goodwill	Aggregate consideration transferred, non-controlling interest, and previously held equity interest, less the acquisition value of net assets acquired *[IFRS 3.32]*.	Not recognized *[IFRS 3.4]*.
Lease classification	Acquired lease arrangements are classified based on the terms at the date of inception, unless there have been modifications to the contract that would change the classification, in which case it is assessed based on terms at the modification date *[IFRS 3.17]*.	Acquired lease arrangements must be classified based on a reassessment of the facts and circumstances.
Deferred Tax Assets and Liabilities	Must be recognized and measured in accordance with IAS 12 *Income Taxes* *[IFRS 3.24]*.	Not recognized *[IAS 12.15(b)].*
Share Consideration	IFRS 2 *Share-based Payment* does not apply to share consideration. Issued in a business combination.	IFRS 2 *Share-based Payment* applies to share consideration issued in an asset acquisition.
Bargain Purchase Gain	Excess of acquisition date value of net assets acquired over aggregate of consideration transferred, non-controlling interest, and previously held equity interest *[IFRS 3.34]*.	Not recognized.
Non-controlling Interest	Measured at fair value or the present ownership instruments' proportionate share in the recognized amount of the	This issue was discussed at the IFRS Discussion Group meeting in September 2019, as there are

	acquiree's identifiable net assets *[IFRS 3.19].*	accounting policy choices that may be applied. For further information, see the Resources section of this guide.
Acquisition-related Costs	Expensed as incurred, except those incurred to issue debt or equity securities which are accounted for in accordance with IAS 32 and IFRS 9 *[IFRS 3.53]*.	Capitalized as part of the cost of the assets acquired.

If the acquisition of an asset or a group of assets does not constitute a business combination, IFRS 3.2(b) requires an entity to account for the acquisition of an asset or a group of assets as follows:

Step 1

- The acquirer identifies and recognizes the individual identifiable assets acquired and liabilities assumed in accordance with the applicable IFRSs, including those assets that meet the definition of, and recognition criteria for, intangible assets in IAS 38 *Intangible Assets*.

Step 2

- Allocate the cost of the group of assets to the individual assets acquired and liabilities assumed on the basis of their relative fair values at the acquisition date. Such a transaction does not give rise to goodwill.

Step 3

- The acquirer applies the initial measurement requirements in the applicable IFRSs for each identifiable asset and liability.

Example: Accounting for an Asset Acquisition

[This example has been modified from an example provided in the IFRS Interpretations Committee Meeting Staff Paper dated June 2017]

Company A acquired a group of assets for consideration with a fair value of $300,000. The group of assets does not constitute a business. Note that this example assumes that the fair value of the consideration exceeds the aggregate fair value of the identifiable assets acquired. When this situation occurs, the entity must revisit the procedures used to determine the fair value of the identifiable assets.

Step 1: Company A identified the following assets acquired:

	Fair Value
Property, plant and equipment (PPE)	$150,000
Biological asset	$150,000
Financial asset	$ 50,000
Total fair value of assets acquired	$350,000

There were no identifiable liabilities assumed.

Step 2: Company A determines the individual transaction price for each identifiable asset by allocating the fair value of the consideration based on the relative fair values of the identifiable assets:

	Transaction Price	
PPE	$128,570	($300,000 * $150,000/$350,000)
Biological asset	$128,570	($300,000 * $150,000/$350,000)
Financial asset	$ 42,860	($300,000 * $50,000/$350,000)
Total transaction price	$300,000	

Step 3: Company A applies the initial measurement requirements in IAS 16 *Property, Plant and Equipment*, IAS 41 *Biological Assets,* and IFRS 9 *Financial Instruments* to the respective identifiable assets.

IAS 16 requires initial measurement of the PPE at cost – as such, Company A initially measures the PPE at $128,570.

IAS 41 requires the entity to initially measure the biological asset at fair value less costs to sell. Because the transaction price of $128,570 is different from the fair value of $150,000, Company A recognizes a gain on initial recognition of $21,430 and records the biological asset at its fair value of $150,000.

IFRS 9 requires the entity to initially measure the financial asset at fair value. Because the transaction price of $42,860 is different from the fair vale of $50,000, Company A accounts for the difference in accordance with IFRS 9.B5.1.2A.

Accounting for a Business Combination – Applying the Acquisition Method

A business combination is accounted for using the acquisition method. The acquisition method has four steps:
1. Identifying the acquirer;
2. Determining the acquisition date;
3. Recognizing and measuring the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree; and,
4. Recognizing and measuring goodwill or a gain from a bargain purchase.

Step 1: Identifying the Acquirer

In each business combination, one of the parties involved is identified as the acquirer. The entity obtaining control over the acquiree is the acquirer. The guidance in IFRS 10 *Consolidated Financial Statements* is used to determine which entity has obtained control, which is discussed further in the Control Assessment in Accordance with IFRS 10 section of this guide. However, if the guidance in IFRS 10 does not provide a clear conclusion, the following factors should be considered:

Business Combination Effected by Exchanging Equity Interests *[IFRS 3.B15]*	
Terms of Exchange of Equity Interests	The acquirer is usually the combining entity that issues its equity interests to effect the transaction (except in reverse acquisitions). Moreover, the acquirer is usually the combining entity that pays a premium over the pre-combination fair value of the equity interests of the other combining entity or entities.
Relative Voting Rights	The acquirer is usually the combining entity whose owners, as a group, retain or receive the largest portion of the voting rights in the combined entity. When performing this assessment, the existence of any unusual or special voting arrangements and options, warrants or convertible securities are considered.
Existence of a Large Minority Voting Interest	When no owner or organized group of owners has a significant voting interest, the acquirer is usually the combining entity whose single owner or organized group of owners holds the largest minority voting interest in the combined entity.
Composition of Governing Body	The acquirer is usually the combining entity whose owners have the ability to elect or appoint or to remove a majority of the members of the governing body of the combined entity.
Composition of Senior Management	The acquirer is usually the combining entity whose (former) management dominates the management of the combined entity.
Business Combination Effected by Transferring Cash or Other Assets or by Incurring Liabilities *[IFRS 3.B14]*	
Consideration Transferred	The acquirer is usually the entity that transfers the cash or other assets or incurs the liabilities.

When there are more than two entities involved in the transaction, determination of the acquirer includes consideration of which of the combining entities initiated the combination, as well as the relative size of the other combining entities. The acquirer's relative size (e.g. measured in assets, revenues, or profit) is usually significantly greater than that of the other combining entities *[IFRS 3. B16 – B17].*

In combinations where a new entity is formed to issue equity interests to effect the business combination, the acquirer will be identified as one of the combining entities that existed before the business combination. Where a new entity transfers cash or other assets or incurs liabilities as consideration, the newly formed entity may be identified as the acquirer *[IFRS 3.B18].*

Example: Identification of the Acquirer

Company A entered into a business combination agreement to acquire Company B through an exchange of equity interests.

Company A has two types of shares: Class A Super Voting Shares and Class B Subordinate Voting Shares. Super Voting Shares are entitled to 100 votes per share and Subordinate Voting Shares are entitled to 1 vote per share. Two of the directors of Company A, Adam and Dave, own Super Voting Shares with 77% voting rights in Company A. The remaining 23% is owned by subordinate voting shareholders.

Pursuant to the agreement, all shareholders of Company B became shareholders of Company A. Company A issued Class B Subordinate Voting Shares to Company B's shareholders on a one-for-one basis.

Subsequent to the acquisition, the Super Voting Shareholders own 67% voting rights and Subordinate Voting Shareholders own 33% voting rights on a fully diluted basis. In the combined entity, the previous management team of

Company A continued on as the key members of management. Company A shareholders retained the right to appoint 6 of the 9 directors, and Company B obtained the right to appoint the other 3 directors.

Who is the acquirer – Company A or Company B?

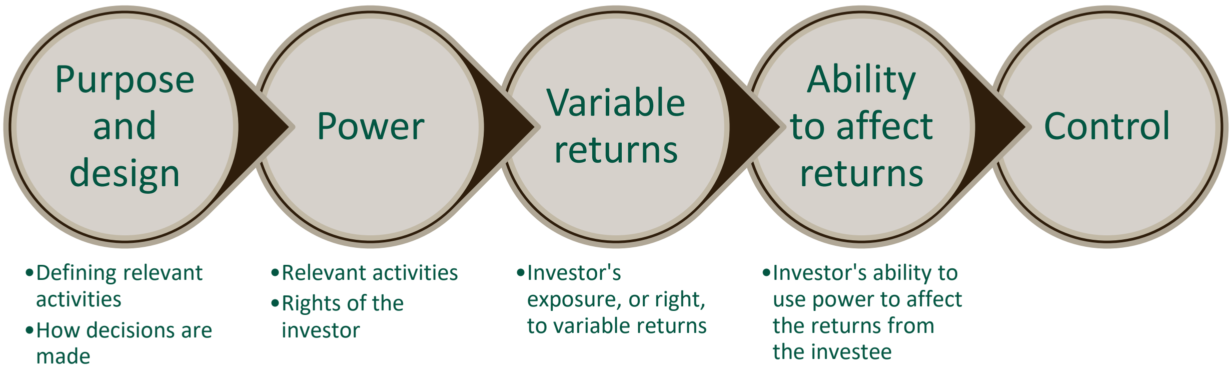
Assessment: The acquirer is usually the combining entity whose owners, as a group, retain or receive the largest portion of the voting rights in the combined entity. When performing this assessment, the existence of any unusual or special voting arrangements and options, warrants or convertible securities should be considered. Super Voting Shareholders own 67% voting rights in combined entity. Furthermore, Company A also represented the entire key management group of the combined entity and retained the right to appoint the majority of the directors. Based on consideration of all of these factors, Company A is the acquirer.

Step 1A: Control Assessment in Accordance with IFRS 10

When determining the appropriate accounting for a business combination, the parties to the transaction must analyze the circumstances to determine who the acquirer in the business combination is, being the entity that obtains control over the acquiree. The guidance in IFRS 10 is used to determine which entity has obtained control.

An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee *[IFRS 10.6]*. When assessing control of an investee, an investor will consider:

- The purpose and design of the investee;
- What the relevant activities are and how decisions about relevant activities are made;
- Whether the rights of the investor give it the current ability to direct the relevant activities;
- Whether the investor is exposed, or has rights, to variable returns from its involvement with the investee; and,
- Whether the investor has the ability to use its power over the investee to affect the amount of the investor's returns *[IFRS 10.B3]*.



Purpose and Design of the Investee

The investor must first understand the purpose and design of the investee to identify integral information for the control assessment, including:

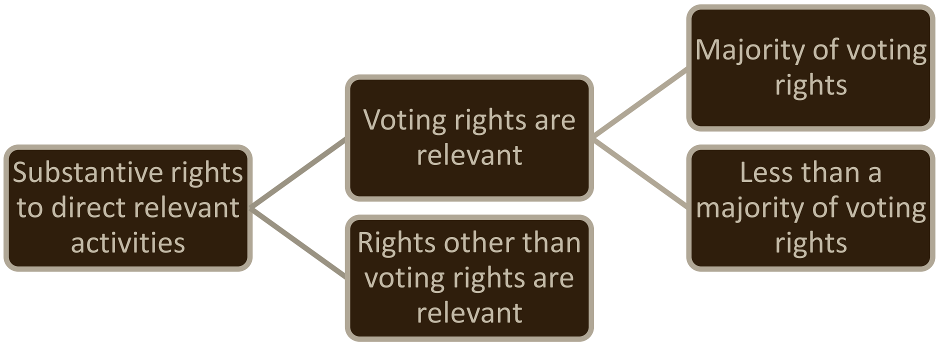
- The relevant activities;
- How decisions about the relevant activities are made;
- Who has the current ability to direct those activities; and,
- Who receives returns from those activities *[IFRS 10.B5]*.

By understanding these factors, the investor may obtain information that indicates whether control of the entity arises through voting rights or through other factors. For example, if decisions about the relevant activities are driven by voting rights and there are no other factors that alter decision-making at the investee, the control assessment will focus on who has power through voting rights *[IFRS 10.B6]*.

Alternatively, if voting rights are not a dominant factor based on the purpose and design of the investee, the control assessment will focus on power achieved from other than voting rights *[IFRS 10.B7 – B8].*

Power Over an Investee

An investor has power over an investee when an investor has **existing rights** that give it the current ability to direct the **relevant activities** (i.e. the activities that significantly affect the investee's returns) *[IFRS 10.B9].* There are different considerations to be made depending on whether the ability to direct relevant activities arises from voting rights or other rights. If the ability to direct relevant activities is based on voting rights, there are different considerations depending on whether the investor holds a majority of voting rights.



Substantive Rights to Direct Relevant Activities

When assessing who has power over the investee, only substantive rights to direct relevant activities are considered *[IFRS 10.B9]*.

Relevant activities are those activities of the investee that significantly affect the investee's returns. Some examples of relevant activities include:

- Sale and purchase of goods and services;
- Financial asset management;
- Selection, acquisition and disposition of assets;
- Research and development of new products or processes; and,
- Determining a funding structure or obtain funding *[IFRS 10.B11].*

One must also understand how decisions about the relevant activities are made. Some examples of decisions about relevant activities may include:

- Establishing operating and capital decisions of the investee, including budgets; and,
- Appointing and remunerating an investee's key management personnel or service providers and terminating their services or employment *[IFRS 10.B12].*

Example: Assessing Relevant Activities

Company X, a solar power generation company, has membership interests held by two entities – Company Y and Company Z. Company Y is the Managing Member and holds 100% of the Class A membership interests. Company Z holds 100% of the Class B membership interests. Company Z is in charge of the day-to-day operations of Company X including hiring and firing of employees, but the following decisions require 100% approval of the Class A membership interests held by Company Y:

- Obtaining governmental approvals and permits;
- Sale, lease or disposition of Company X's solar power system;
- Equity transactions;

- Capital expenditures;
- Entering into new contracts; and,
- Approval of an operating plan.

Who directs the relevant activities of Company X?

Assessment: In order to have power over Company X, Company Y or Z must have existing rights that give it current ability to direct the relevant activities of Company X. Company Y is responsible for approving decisions about certain activities that have a significant affect on Company X's returns, including: obtaining government approvals and permits; sale, lease or disposition of Company X's solar power system; entering into new contracts; capital expenditures; and approval of operating plan. However, Company Z is able to make decisions about day-to-day operations of the business, including hiring and firing employees, that can also impact Company X's returns.

Per IFRS 10.B13, when two or more investors have the current ability to direct relevant activities and those activities occur at different times, the investors shall determine which investor is able to direct the activities that most significantly affect those returns consistently with the treatment of concurrent decision-making rights. In this case, there are two stakeholders in the entity that can individually control different activities. It requires the application of judgment and an understanding of all relevant facts to assess which of the relevant activities most significantly impact Company X's returns.

As noted above, only substantive rights are considered when determining who has power over an investee. A substantive right gives the holder the practical ability to exercise that right *[IFRS 10.B22]*. Protective rights are the rights designed to protect the interest of the party holding those rights without giving that party power over the entity to which those rights relate *[IFRS 10 Appendix A].*

Insights

- Some examples of protective rights include:
  - Rights held by a lender to seize assets in the event of default
  - Rights held by a lender to restrict a borrower from undertaking activities that could significantly change the credit risk of the borrower
  - The right of a party holding a non-controlling interest to approve capital expenditure greater than that required in the normal course of business or to approve the issue of equity or debt instruments *[IFRS 10.B28]*

An investor cannot have power if its rights are only protective. Likewise, protective rights held by other parties cannot prevent an investor from having power *[IFRS 10.B27]*. When assessing whether rights are substantive, it is necessary to exercise judgement based on a careful analysis of all of the relevant facts and circumstances, including:

Factors to Consider	Examples
Whether barriers to exercise exist, such as: • Penalties or incentives • Exercise or conversion price that creates a financial barrier or deterrent • Terms and conditions that make exercise unlikely • Absence of an explicit, reasonable mechanism for exercise • Lack of information necessary to exercise • Operational barriers • Legal or regulatory barriers *[IFRS 10.B23 (a)]*	Relevant activities are subject to direction by a government, court, administrator, receiver, liquidator or regulator. Potential voting rights relating to stock options issued out-of-the-money, making it unlikely that the investor will exercise those voting rights.

Whether exercise requires the agreement of more than one party or, when rights are held by various parties, whether a mechanism exists to enable collective action *[IFRS 10.B23 (b)]*	A board of directors consisting of directors who are independent of the decision-maker may serve as a mechanism for numerous investors to act collectively in exercising their rights.
Whether the investor would benefit from exercise *[IFRS 10.B23 (c)]*	An investor's potential voting rights are more likely to be substantive if: • The exercise price is in the money • The investor would realize synergy benefits.
Timing of ability to exercise *[IFRS 10.B24]*	An investor's voting rights that are not currently exercisable are more likely to be substantive if they can be exercised before a date when decisions about relevant activities are made.

Example: Substantive vs. Protective Rights

Company A is in negotiation with Company Z to acquire 100% of the share capital of Company C. Company C is currently wholly owned by Company Z and meets the definition of a business as defined in IFRS 3. The share sale is subject to the approval by Company A's shareholders and the provincial government. Until such time that the share sale is finalized, Company A and Company Z enter into an agreement that:

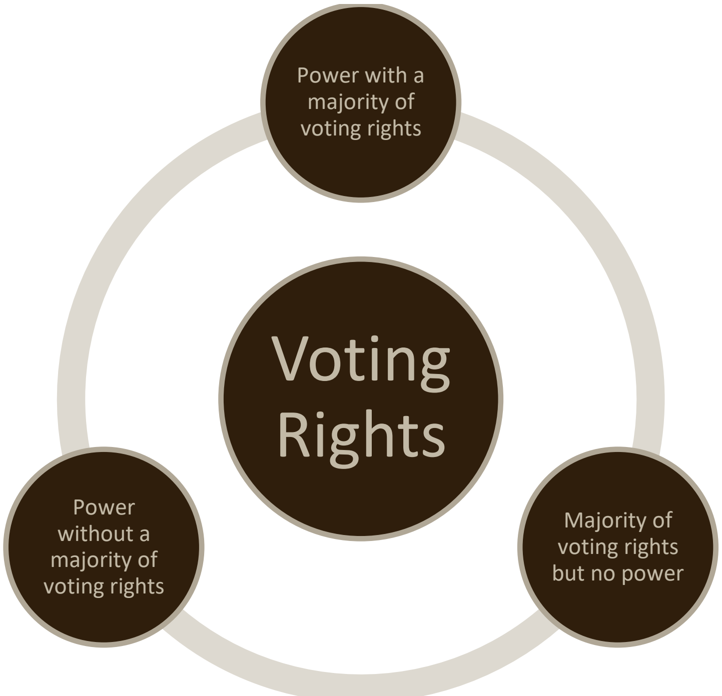
- Commits both parties to legal completion subject to obtaining the required approvals;
- Specifies the purchase price;
- Specifies that following decisions and actions can be undertaken by Company Z only with the consent of Company A until the share sale goes through:
  - Changes in the management of Company C;
  - Dividend payments; and,
  - New contracts in excess of $50,000.

Does Company A control Company C as a result of this agreement?

Assessment: In this situation, the legal ownership of the voting rights remains with the current owner, Company Z, until approval by both Company A's shareholders and the provincial government. The agreement requires Company Z to obtain the approval of Company A before making some important decisions until the share sale goes through, including changes in management, dividend payments, and undertaking new contracts in excess of $50,000. The agreement does not give Company A any power to initiate new activities or strategies. The rights given to Company A are merely to protect their interests as the future acquirer but without delivering control before the law permits it. Thus, Company A's rights are protective and do not confer control.

Voting Rights are Relevant

If the ability to direct the investee's relevant activities is driven by voting rights, the investor will consider whether their voting rights give them power over the investee. Power through voting rights may occur with or without a majority of the voting rights, or through other contractual arrangements.



Power with a majority of voting rights

An investor that holds the majority of voting rights has power over the investee if:

- Decisions about relevant activities are made by voting; or,
- A majority of members of the governing body that directs relevant activities are appointed by voting *[IFRS 10.B35]*.

Majority of voting rights but no power

In some circumstances, the investor may hold the majority of voting rights without having power over the investee. Examples of such circumstances include:

- When another entity has existing rights to direct the relevant activities of the investee, and that entity is not an agent of the investor *[IFRS 10.B36]*.
- When the voting rights held by the investor are not substantive *[IFRS 10.B37]*.

Power without a majority of voting rights

An investor may have power over the investee without holding a majority of the voting rights, when certain circumstances exist, including one or more of the following factors:

- Contractual arrangement with other vote holders
  - The investor may have a contractual arrangement in place to be able to direct other vote holders on how to vote, thereby giving the investor the ability to direct the relevant activities of the investee *[IFRS 10.B39].*
- Rights from other contractual arrangements
  - The investor may hold other contractual rights which, when combined with voting rights, may give the investor the ability to direct the relevant activities *[IFRS 10.B40]*.
- The investor’s voting rights
  - The investor may have power with less than a majority of voting rights, considering all facts and circumstances including the relative size of the investor’s voting rights as compared to the size and dispersion of the other voting rights *[IFRS 10.B42]*.

   - These circumstances require careful analysis, considering the number of voting rights held by other vote holders, the dispersion of other vote holders, whether there is an organized group of other vote holders, and voting patterns at previous shareholder meetings *[IFRS 10.B43, IFRS 10.B45].*

Example: Power without a majority of voting rights

Company X holds 43% of the common shares in Company Y. Company Y's relevant activities are directed by voting rights conferred by common shares. The remaining 57% of the shares are owned by hundreds of other unrelated shareholders, none of whom own more than 1% individually. There are no arrangements for the other shareholders to consult with one another and past experience indicates that very few of the other shareholders actually exercise their voting rights at all.

Assessment: Company X controls Company Y as Company X's voting power is sufficient to direct the relevant activities of Company Y. A large number of the other shareholders would have to act collectively to outvote Company X.

- Potential voting rights
   - Potential voting rights are rights to obtain voting rights of an investee, such as those arising from convertible instruments or options, including forward contracts. Potential voting rights are only considered when assessing power over the investee if the rights are substantive *[IFRS 10.B47]*.
- De facto agent
   - The existence of a de facto agent may indicate that the investor has control of the investee, even if the investor does not hold a majority voting interest. Judgment must be applied in concluding whether other parties are de facto agents, considering both the nature of the relationship and the interaction of the parties with each other and the investor *[IFRS 10.B73].*

Insights

- A party is a de facto agent when the investor has, or those that direct the activities of the investor have, the ability to direct that party to act on the investor's behalf. Examples of the types of parties that might act as de facto agents for the investor may include:
   - The investor's related parties;
   - A party that received its interest in the investee as a contribution or loan from the investor;
   - A party that has agreed not to sell, transfer or encumber its interests in the investee without the investor's prior approval;
   - A party that cannot finance its operations without subordinated financial support from the investor;
   - An investee for which the majority of the members of its governing body or for which its key management personnel are the same as the investor's; and,
   - A party that has a close business relationship with the investor *[IFRS 10.B74 and B75].*

Rights Other Than Voting Rights are Relevant

When rights other than voting rights direct the relevant activities of the investee, the investor must consider all relevant facts and circumstances to assess whether the investor has power over the investee, including:

a) Consideration of the risks and potential benefits of the investee, and the extent to which the investor is exposed to, or may benefit from, those risks and benefits *[IFRS 10.B8].*

b) The extent to which the investor was involved with the decisions made when the investee was created, including whether the investor's involvement resulted in sufficient rights to give it power over the investee *[IFRS 10.B51].*
c) Consideration of contractual arrangements established at inception of the investee, which involve activities that are closely related to the investee's activities. Decision-making rights for the closely related activities are considered to be, in substance, relevant activities in the assessment of power [*IFRS 10.B52].*
d) When the activities and returns of the investee are fixed until a specific future event occurs, consider who has the ability to direct the relevant activities once that future event occurs *[IFRS 10.B53].*
e) Consider if the investor has a commitment to ensure that the investee operates as designed, which may indicate that the investor has power. However, this indicator alone is not sufficient to give an investor power *[IFRS 10.B54].*

Example: Power through Other than Voting Rights

On June 1, 2019, Company X acquired 20% of the common shares in Company Y. Company X and Y also entered into a management service agreement whereby Company X has the right to:

- Appoint or replace Company Y's management;
- Approve or implement the annual budget for capital expenditures;
- Provide short-term debt to meet the approved operating budget; and,
- Approve and review the business activities.

Based on Company X's assessment of the design and purpose of the investee, Company X concludes that the activities noted in the management service agreement are the relevant activities of Company Y. As such, although Company X holds only 20% shareholding of Company Y, the terms of the management service agreement indicate that Company X has sufficient rights to give it power over Company Y.

Exposure, or Rights, to Variable Returns from its Involvement with the Investee

To have control over an investee, an investor must be exposed, or have rights, to variable results from its involvement with the investee. This is evident when the investor's returns from its involvement have the potential to vary (either positively or negatively) as a result of the investee's performance *[IFRS 10.15]*.

Insights

- Variable returns are returns that are not fixed and have the potential to vary as a result of the performance of an investee. Variable returns can be only positive, only negative, or both positive and negative *[IFRS 10.B56]*. Examples of returns include:
  - Dividends;
  - Distribution of economic benefits;
  - Changes in the value of an investor's investment in an investee;
  - Remuneration for servicing an investee's assets or liabilities;
  - Fees and exposure to loss from providing credit or liquidity support;
  - Residual interests in the investee's assets and liabilities on liquidation;
  - Tax benefits;
  - Access to future liquidity; and,
  - Returns that are not available to other interest holders (e.g. use of an investor's own assets in combination with investee's assets resulting in economies of scale, cost savings, sourcing scarce products, accessing proprietary knowledge, or limiting some operations or assets to enhance the value of investor's other assets) *[IFRS 10.B57].*

Ability to Use Power to Affect the Amount of the Investor's Returns

An investor controls an investee if the investor not only has power over the investee and exposure or rights to variable returns, but also has the ability to use its power to affect the investor's returns from its involvement *[IFRS 10.17]*. The investor must assess whether it is a principal or an agent, regarding its decision-making rights over the investee *[IFRS 10.18]*.

Insights

- An agent is a party primarily engaged to act on behalf and for the benefit of another party or parties (i.e., the principal(s)) and therefore does not control the investee when it exercises its decision-making authority *[IFRS 10.B58]*.

To determine whether a decision-maker is a principal or agent, IFRS 10 requires an assessment of various factors aimed at identifying a decision-maker's primary role. Any decision-making rights that are allocated to the agent should be considered to belong to the principal *[IFRS 10.B59]*. Through a consideration of all relevant facts and circumstances, including weighting the importance of each factor for the specific situation, the investor must conclude whether it is a principal or an agent.

Many of the considerations provided within IFRS 10 are judgmental, however, there is one factor that is definitive in determining whether the investor is a principal or an agent. If a single party can remove the decision-maker (i.e. the investor) without cause, the decision-maker is an agent *[IFRS 10.B65]*. If this definitive factor is not present, the investor would then consider the following judgmental factors:

Principal	Factor	Agent
Larger number of parties required to remove the decision-maker.	Removal rights *[IFRS 10.B65]*	Lower number of parties required to remove the decision-maker.
Remuneration is **not commensurate** with the services provided.	Level of remuneration *[IFRS 10.B69]*	Remuneration **is commensurate** with the services provided.
Terms of the remuneration agreement are **not customary**	Terms of remuneration *[IFRS 10.B69]*	Terms of the remuneration agreement **are customary**
Broad scope	Scope of decision-making authority *[IFRS 10.B62]*	Narrow scope
Less substantive rights that restrict the decision-maker's discretion	Rights held by other parties *[IFRS 10.B64 – B66]*	More substantive rights that restrict the decision-maker's discretion
Extensive exposure	Exposure to variability of returns *[IFRS 10.B71 – B72]*	Limited exposure

Common Control

Insights

- IFRS 3 does not apply to a business combination of entities or businesses under common control.

A business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory, is a business combination under common control. A group of individuals shall be regarded as controlling an entity when, as a result of the contractual arrangements, they collectively have the power to govern its financial and operating policies so as to obtain benefit from its activities *[IFRS 3.B1 – B3].* The requirement that the control results from contractual arrangements is critical when assessing whether a group of individuals controls an entity.

Common control is considered transitory if it is brief, temporary or short lived. The assessment of whether common control is transitory should consider the duration of control both before and after the transaction.

These combinations often occur as a result of a group reorganization in which the ownership structure between subsidiaries changes, but the ultimate parent remains the same.

For common control business combinations, entities are required to develop an accounting policy that will provide relevant and reliable information in accordance with IAS 8 *Accounting Policies, Change in Accounting Estimates and Errors.* The two methods most commonly chosen for accounting for business combinations between entities under common control are the acquisition method and the predecessor value method (or pooling of interests method). The predecessor value method requires the financial statements to be prepared using the predecessor book values without any fair value adjustments. This method does not result in any goodwill or previously unrecognized intangible assets. The acquisition method follows the guidance in IFRS 3 and requires the acquirer to recognize and measure the identifiable assets acquired and liabilities assumed at fair value. Any difference between the fair value of the net assets acquired and consideration paid will be recognized as goodwill (gain on a bargain purchase).

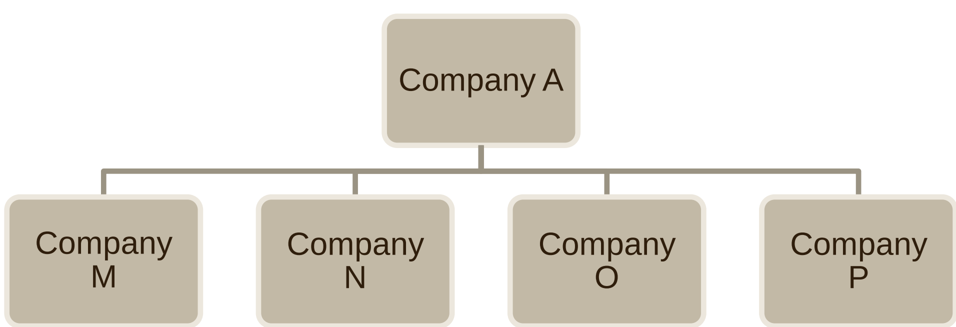
Insights

- The IASB has an ongoing project regarding accounting for business combinations under common control, and plans to publish a Discussion Paper in the first half of 2020.

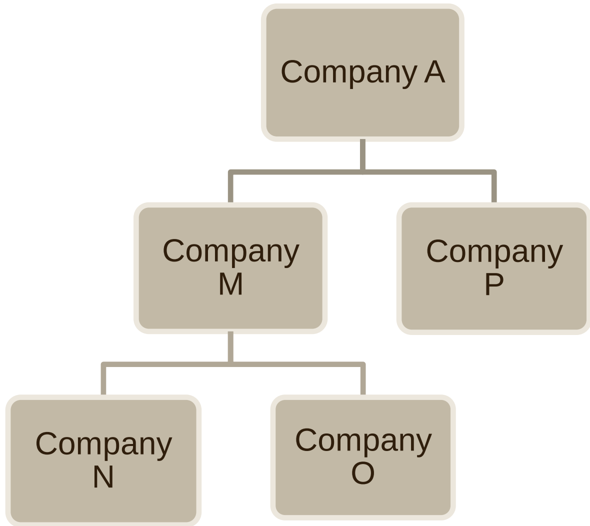
Example: Common Control Assessment

Company A, the parent of Company M, Company N, Company O and Company P, reorganizes the retail segment of its business to consolidate all of its retail businesses in a single entity. Under the reorganization, Company M acquires Company A's shareholdings in its two operating subsidiaries, Company N and Company O, by issuing its own shares to Company A. After the transaction, Company M will directly control the operating and financial policies of Companies N and O.

Before



After



Assessment: Prior to the reorganization, each of the entities were controlled by Company A. After the reorganization, although Companies N and O are now subsidiaries of Company M, all three companies are still ultimately owned and controlled by Company A. There has been no change in control as a result of the reorganization. The common control is not considered to be transitory. The common control of Company N and O is not fleeting in the fact pattern as both entities had been controlled by Company A for several years. Therefore, this transaction is a common control transaction and is outside the scope of IFRS 3. The transaction will need to be accounted for using either the predecessor values method or the acquisition method in accordance with IFRS 3.

Step 2: Determining the Acquisition Date

The acquisition date is the date the acquirer obtains control over the acquiree *[IFRS 3.8]*. Establishing the appropriate acquisition date is important because it dictates the date on which the acquirer will recognize and measure the assets and liabilities of the acquiree. Generally, the closing date, which is the date the acquirer legally transfers the consideration and acquires the assets and assumes the liabilities of the acquiree is considered the acquisition date. However, it is possible for the acquirer to obtain control before or after the closing date (e.g. the acquisition date precedes the closing date if it is set out through written agreement that the acquirer obtains control on an earlier date). An acquirer must consider all relevant facts and circumstances in determining the acquisition date *[IFRS 3.9]*.

Insights

- The date control is obtained will be dependent on a number of factors, including whether the acquisition is subject to approval by other parties. Where an offer is conditional on the approval of the shareholder(s) or regulator(s), the transfer of control is dependent on that approval unless the approval is purely administrative in nature, or merely a rubber-stamping requirement.

Step 3: Recognizing and Measuring the Identifiable Assets Acquired, the Liabilities Assumed and Any Non-controlling Interest in the Acquiree

Identifiable Assets Acquired and Liabilities Assumed

On the acquisition date, the acquirer recognizes the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree. The identification and measurement of these assets and liabilities is important as it ultimately impacts the measurement of any goodwill or a gain from a bargain purchase arising from the acquisition.

Insights

- An asset is identifiable if it either:
  - is separable (i.e. capable of being separated or divided form the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so); or,
  - arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights or obligations *[IFRS 3 Appendix A]*.

Recognition Conditions

For assets and liabilities to qualify for recognition, they must meet the definitions of these elements as defined in the *Framework for the Preparation and Presentation of Financial Statements* as of the acquisition date *[IFRS 3.11].* Intangible assets acquired in the transaction must meet the recognition criteria defined in IAS 38, as discussed in the Intangible Assets Other Than Goodwill section of the guide. There are also some identifiable assets and liabilities for which there are exceptions to this recognition principle, discussed further in the Exceptions to the Recognition and/or Measurement Principles section of the guide.

However, there may be assets and liabilities that need to be recorded by the acquirer that were not previously recorded by the acquiree. For example, as part of the transaction the acquirer could acquire a brand name, a patent or a customer relationship that was not previously recognized by the acquiree because it was developed internally but may be considered an identifiable intangible asset that meets the recognition criteria. These items must be recognized by the acquirer as assets acquired through the business combination *[IFRS 3.13].*

Intangible Assets Other Than Goodwill

Identifiable intangible assets acquired in a business combination are recognized separately from goodwill. An intangible asset is considered identifiable if it meets either the separability criterion or the contractual-legal criterion *[IAS 38.12].* The contractual-legal criterion means that the asset arose because of contractual or legal rights *[IAS 38.33]*. If an intangible asset meets the contractual-legal criterion, it is considered to be identifiable even if it does not meet the separability criterion *[IFRS 3.B32]*.

The separability criterion indicates that the intangible asset can separated from the acquiree, and then sold, transferred, licensed, rented, or exchanged, either on its own or with a related contract, asset, or liability. The acquirer's intent regarding separating the intangible asset from the acquiree is not relevant when making this assessment. When assessing the separability of the intangible asset, consider:

- Evidence of exchange transactions for the same or similar assets, regardless of the frequency of such transactions and whether the acquirer was involved in them;
- Contractual or legal prohibitions against selling, leasing, or exchanging the asset (e.g. often in business combinations, the acquirer will be prohibited from selling a customer list due to confidentiality concerns) *[IFRS 3.B33]*; and,
- When an intangible asset is not individually separable, consider whether it may be separable when combined with another contract, identifiable asset, or liability *[IFRS 3.B34]*.

IAS 38 also requires that an intangible asset is only recognized if the cost can be reliably measured, and it is probable that future economic benefits will flow to the entity *[IAS 38.21]*. When an intangible asset is acquired in a business combination, there is a presumption that the acquirer expects to receive economic benefits, even if the timing or amount of those benefits in unknown. As such, this recognition criterion is assumed to be met for intangible assets acquired in business combinations. Furthermore, the cost of an intangible asset acquired in a business combination must be measured at fair value. There is a presumption that if the intangible asset is separable or arises from contractual/legal rights, there will be enough information available to determine the fair value. As a result, the reliably measurable criterion is assumed to be met for intangible assets acquired in business combinations *[IAS 38.33]*.

Measurement Principle

The identifiable assets acquired and liabilities assumed are measured at their acquisition-date fair values. Any non-controlling interest is measured at either its fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets *[IFRS 3.18 - .19]*.

Exceptions to the Recognition and/or Measurement Principles

There are some limited exceptions to the recognition and measurement principles under IFRS 3. These exceptions may result in some items being:

- Recognized either by applying recognition conditions in addition to the standard conditions or by applying the requirements of other IFRSs, with results that differ from the recognition conditions of IFRS 3; and/or,
- Measured at an amount other than their acquisition date fair values *[IFRS 3.21]*.

Exception to the Recognition Principle *[IFRS 3.22 -23]*	
Contingent liabilities	The requirements in IAS 37 *Provisions, Contingent Assets and Contingent Liabilities* do not apply in the determination of which contingent liabilities to recognize as of the acquisition date. The acquirer must recognize a contingent liability assumed in a business combination if it is a present obligation that arises from past events and its fair value can be measured reliably. The acquirer will recognize a contingent liability at the acquisition date even if it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, which is contrary to the requirements of IAS 37.
Exception to Both the Recognition and Measurement Principle *[IFRS 3.24 – 28B]*	
Income taxes	The acquirer recognizes and measures a deferred tax asset or liability arising from the assets acquired and liabilities assumed in a business combination in accordance with IAS 12 *Income Taxes.* The acquirer accounts for potential tax effects of temporary differences and carryforwards of an acquiree that exist at acquisition date or arise as a result of the acquisition in accordance with IAS 12.
Employee benefits	Liabilities or assets related to the acquiree's employee benefit arrangements are accounted for in accordance with IAS 19 *Employee Benefits.*

Indemnification assets	An indemnification asset arises when the seller(s) in the business combination provide a contractual indemnification to the acquirer to address a contingency or uncertain outcome related to an identifiable asset or liability (e.g. the seller may guarantee that the loss from an outstanding legal claim will not exceed a certain amount). This indemnification provides the acquirer with an additional asset related to the indemnified item. The acquirer recognizes an indemnification asset at the acquisition date using the same measurement criteria as the asset or liability it relates to (e.g. if the asset is measured at fair value, then the related indemnification asset is also measured at fair value).
Leases in which acquiree is the lessee	The acquirer recognizes right-of-use assets and lease liabilities for leases identified in which the acquiree is the lessee in accordance with IFRS 16 *Leases*, except for leases that: • Have a lease term that ends within 12 months of the acquisition date; or, • Relate to an underlying asset which is of low value. The lease liability as at the acquisition date is measured as the present value of the remaining lease payments, as though it were a new lease on the acquisition date. The right-of-use asset is measured as at the acquisition date to equal the lease liability and then adjusted for any lease terms that are favorable or unfavorable as compared to market terms.
Exceptions to the Measurement Principle *[IFRS 3.29 – 31]*	
Reacquired rights	Reacquired rights recognized as an intangible asset are measured on the basis of the remaining contractual term of the related contract, regardless of whether market participants would consider potential contract renewals in determining its fair value.
Share-based payment transactions	Any liability or equity instruments, relating to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the acquirer are measured and recognized in accordance with IFRS 2 *Share-based Payment.*
Assets held for sale	Any non-current assets (or disposal groups) acquired that are classified as held for sale at the acquisition date are measured at their fair values less costs to sell in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.*

Non-controlling Interest

Insights

- Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly, to a parent. The term non-controlling interest indicates that the control of an acquiree may be obtained via less than a majority shareholding.

When the business combination involves the acquisition of shares, consideration needs to be given to a potential non-controlling interest. Unless the acquirer acquires 100% of the outstanding shares of the acquiree, there is a non-controlling interest portion that needs to be accounted for. This occurs because the consolidated statement of financial position will contain 100% of the net assets of the combining entities, and therefore must reflect the percentage of the acquiree's shares that are not owned by the acquirer.

The acquirer measures the non-controlling interest (i.e. the equity interests not held by the acquirer) in the acquiree at the:

- Fair value; or,
- Present ownership instruments' proportionate share in the recognized amount of the acquiree's identifiable net assets at the acquisition date *[IFRS 3.19].*

If the acquiree's equity shares are traded on an active market, the acquirer can base the fair value on the active market price. If an active market price is not available, the acquirer would measure the fair value of the non-controlling interest using other valuation techniques *[IFRS 3.B44]* (e.g. using the non-controlling interest's proportional share of the fair value of the identifiable assets).

What is Part of the Business Combination?

Transactions entered into before or during the business combination that are primarily for the benefit of the acquirer or the combined entity, rather than primarily for the benefit of the acquiree or its former owners, are more likely to be separate transactions and therefore not recorded as part of the business combination *[IFRS 3.52]*. Only the assets, liabilities, and consideration that were exchanged between the acquirer and the acquiree as part of the business combination transaction are recognized in applying the acquisition method. Any items acquired or assumed as part of a separate transaction are accounted for separately in accordance with other applicable IFRS(s) *[IFRS 3.51]*.

For example, costs expected to be incurred by the acquirer in the future to terminate employment of or relocate an acquiree's employees are not liabilities at the acquisition date. Such items would not be recognized as part of applying the acquisition method but would be recognized in the post-combination financial statements in accordance with the applicable IFRS sections *[IFRS 3.11].*

The following factors should be considered when determining whether a transaction is part of the business combination:

The reason(s) for the transaction	Transactions that are primarily intended to provide benefits for the acquirer or the combined entity (instead of the acquiree or its former owners) are less likely to be part of the business combination *[IFRS 3. B50 (a)].*
Who initiated the transaction	Transactions initiated by the acquirer that provide a future economic benefit to the acquirer or the combined entity, with little or no benefit to the acquiree or its former owners are less likely to be part of the business combination. Alternatively, transactions initiated by the acquiree or its former owners are unlikely to be for the acquirer or combined entity's benefit and, therefore, may be part of the business combination *[IFRS 3. B50 (b)].*
The timing of the transaction	Transactions that take place during negotiation of the terms of the business combination may have been entered into in contemplation of the business combination to provide future benefits to the acquirer or the combined entity. In such cases, the acquiree or its former owners are likely to receive little or no benefit from the transaction except for benefits they receive as part of the combined entity. As a result, the transaction is less likely to be part of the business combination *[IFRS 3.B50 (c)].*

Examples of separate transactions include:

1. **Transactions that in effect settle pre-existing relationships**

The acquirer and acquiree may have a relationship that existed before they contemplated the business combination (i.e. a pre-existing relationship). Such relationships may be contractual or non-contractual in nature *[IFRS 3.B51]*. A transaction that in effect settles a pre-existing relationship between the acquirer and the acquiree is excluded from the accounting for the business combination.

For example, if there is an outstanding legal claim between the acquirer and acquiree, this is a non-contractual relationship. If there are outstanding receivables or payables between the acquirer and acquire, this is a contractual relationship.

When pre-existing relationships are settled as part of the business combination transaction, part of the consideration will be considered to relate to the settlement of the pre-existing relationship and, therefore, is excluded from the accounting for the business combination. The acquirer recognizes a gain or loss on effective settlement of a pre-existing relationship, measured at:

Type of pre-existing relationship	Measurement criteria
Pre-existing non-contractual relationship	Fair value *[IFRS 3.B52(a)]*
Pre-existing contractual relationship	Lesser of: • Amount by which the contract is favorable or unfavorable as compared to market terms, from the acquirer's perspective; and, • Amount of any stated settlement provisions in the contract available to the counterparty to whom the contract is unfavorable *[IFRS 3.B52(b)]*.

2. **Transactions that remunerate employees or former owners of the acquiree for future services**

A transaction that remunerates employees or former owners of the acquiree for future services is excluded from the business combination accounting and is accounted for separately *[IFRS 3.52]*.

This is discussed in detail in the Contingent Consideration section of this guide.

3. **Transactions that reimburse the acquiree or its former owners for paying the acquirer's acquisition-related costs**

IFRS 3 requires the acquirer to expense its acquisition-related costs *[IFRS 3.53]*. If the acquirer asks the acquiree to pay some or all of the acquisition related costs on its behalf, such costs will be recorded as separate transactions *[IFRS 3.52]*.

Step 4: Recognizing and Measuring Goodwill or a Bargain Purchase Gain

Goodwill

In most business combinations, when the fair values assigned to all identifiable assets acquired and liabilities assumed are added together, the sum will be less than the total consideration paid for the business. If the assets are used in an effective and efficient way, it is possible for the business to be worth considerably more than just the total fair value of the net assets. When a business is acquired, that potential benefit is reflected in the consideration paid to acquire the business.

Therefore, theoretically, goodwill is the capitalized expected value of the enterprise's earning power in excess of a normal rate of return for the particular industry in which it operates. For that reason, the remaining balance of the consideration paid that is unassigned to net assets acquired, is recorded as goodwill.

The acquirer will recognize goodwill as of the acquisition date, measured as follows:

a) The aggregate of:

i. The consideration transferred;
ii. The amount of any non-controlling interest in the acquiree; and,
iii. If the business combination is achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.

Less

b) The net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed *[IFRS 3.32]*.

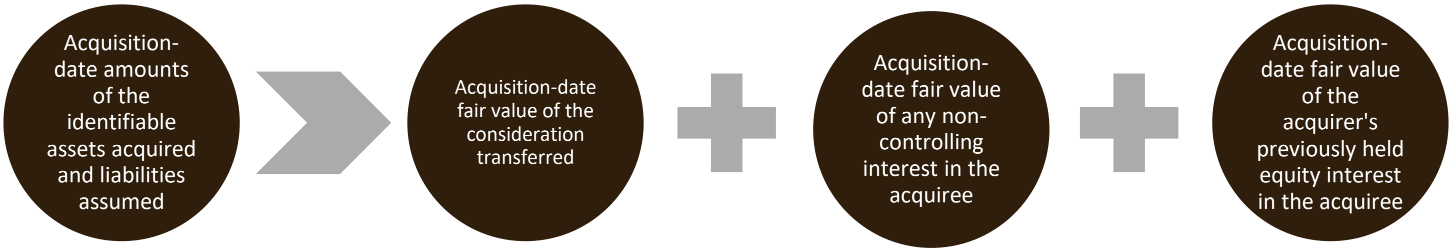
Assembled Workforce and Other Items That are not Identifiable

The amount recorded as goodwill includes the value of an acquired intangible asset that is not identifiable as of the acquisition date. A particular example of an intangible asset included within goodwill is an assembled workforce. IFRS 3 regards this as being the existing collection of employees that permits the acquirer to continue to operate an acquired business from the acquisition date. An assembled workforce is not an identifiable intangible asset to be recognized separately as it cannot be sold, transferred, licensed, rented or exchanged without disruption to the acquirer's business. Therefore, any value attributed to assembled workforce is included in goodwill *[IFRS 3.B37].*

The acquirer also includes in goodwill any value attributed to items that do not qualify as assets at the acquisition date (e.g. contracts that the acquiree is negotiating with prospective customers at the acquisition date that might have value for the acquirer). The acquirer does not recognize them separately as those contracts are not themselves assets at the acquisition date. The acquirer should not subsequently reclassify the value of those contracts from goodwill for events that occur after the acquisition date *[IFRS 3.B38].* Subsequent to the acquisition date, any identifiable intangible assets are accounted for in accordance with IAS 38, other than those specific exceptions detailed in IAS 38.3, which includes goodwill acquired in a business combination *[IFRS 3.B39, IAS 38.3]*.

Bargain Purchase

In some transactions, the acquirer will purchase the business for a bargain price (i.e., the acquirer pays less consideration than the total acquisition date amount of the net assets acquired). In such a situation, the goodwill calculation would produce a negative balance. The acquirer will recognize a gain in profit or loss as of the acquisition date which will be measured as follows:



A bargain purchase may occur when the seller is forced to sell and is acting under compulsion (e.g. the seller is under financial pressure to liquidate) *[IFRS 3.35]*.

Insights

- The following steps must be taken to confirm that the acquisition method has been appropriately applied and reflects all available information as of the acquisition date, before the excess amount is recorded as a gain through profit or loss:
  - Reassess whether all of the assets acquired and liabilities assumed have been correctly identified.
  - Review the procedures used to measure the following items at the acquisition date:
    - The identifiable assets acquired and liabilities assumed;
    - The non-controlling interest in the acquiree, if any;
    - For a business combination achieved in stages, the acquirer's previously held equity interest in the acquiree; and,
    - The consideration transferred *[IFRS 3.36]*.
- If the excess remains, it should be recorded by the acquirer as a gain through profit or loss *[IFRS 3.34]*.

Consideration Transferred

The consideration transferred, in a business combination, is measured as the sum of the acquisition date fair values of the:

- Assets transferred by the acquirer;
- Liabilities incurred by the acquirer to former owners of the acquiree; and,
- Equity interests issued by the acquirer *[IFRS 3.37]*.

Insights

- Any share-based payment awards of the acquirer exchanged for awards held by the acquiree's employees that are included in the consideration transferred are measured in accordance with IFRS 2 *[IFRS 3.37]*.

Common examples types of consideration include:

- Cash;
- Other assets;
- A business or subsidiary of the acquirer;
- Contingent consideration;
- Common or preferred shares;
- Options;
- Warrants; and,
- Member interests of mutual entities *[IFRS 3.37]*.

Exchange of Equity Interests Only

The general rule when only equity interests are exchanged in a business combination, is that the consideration transferred will be measured on the basis of the fair value of the acquirer's shares, unless the acquiree's shares can be measured more reliably. In cases where the acquiree's equity interests can be measured more reliably, the goodwill should be determined by using the acquisition-date fair value of the acquiree's equity interests, rather than the equity interests transferred (acquirer's equity interest) *[IFRS 3.33]*.

Acquisitions Where No Consideration is Transferred

In most instances, consideration will be transferred in a business combination. However, it is possible to obtain control of a business without the transfer of consideration.

Examples of Acquisitions Where no Consideration is Transferred *[IFRS 3.43]*
The acquiree repurchases a sufficient number of its own shares from an existing investor (the acquirer) to obtain control.
Minority veto rights lapse that previously kept the acquirer from controlling an acquiree in which the acquirer held the majority voting rights.
The acquirer and the acquiree agree to combine their businesses by contract alone. The acquirer transfers no consideration in exchange for control of an acquiree and holds no equity interests in the acquiree, either on the acquisition date or previously. Business combinations achieved by contracts alone include combination of businesses in a stapling arrangement or forming a dual listed corporation.

In a business combination with no transfer of consideration, the acquisition date fair value of the consideration transferred is replaced with the acquisition date fair value of the acquirer's interest in the acquiree in order to calculate goodwill *[IFRS 3.B46]*.

Example: Acquisition Where no Consideration is Transferred

Entity A cultivates and produces medical cannabis products for the healthcare sector. On April 1, 2019, Entity A acquired an 80% equity interest in Entity B, a pre-licensed cannabis producer. In exchange for the equity interest, Entity A granted Entity B a non-transferable license to use their cannabis facility and production team. Through the transaction, Entity A obtained four of the six seats on Entity B's board of directors. The board of directors has the ability to remove and appoint senior management of Entity B.

Since this transaction was achieved by exchanging shares for another asset, the acquisition date fair value of the consideration transferred was replaced with the fair value of Entity A's equity interest in Entity B for the purposes of calculating goodwill.

Consideration with Accrued Gains or Losses

When non-monetary assets (or a business of the acquirer) are transferred as consideration, it is possible that the carrying value will not equal the fair value on the acquisition date.

IFRS 3 requires the acquirer to remeasure the transferred assets or liabilities to their fair values as of the acquisition date and recognize any resulting gains or losses in profit or loss. In certain situations, the transferred assets or liabilities may remain within the combined entity after the business combination and, thus, the acquirer retains control over them. If so, the acquirer will measure those assets and liabilities at their carrying amounts immediately before the acquisition date and will not recognize a gain or loss in profit or loss *[IFRS 3.38]*.

Acquisition-related Costs

Acquisition costs are costs incurred by the acquirer to effect a business combination. These costs include finder's fees, advisory, legal, accounting, valuation, and other similar fees. These costs are expensed through profit or loss unless the costs were incurred to issue debt or equity securities, in which case the costs shall be recorded in accordance with IAS 32 and IFRS 9 *[IAS 3.53].*

Contingent Consideration

Contingent consideration is usually an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquiree as part of the exchange for control of the acquiree, if specific future events occur or conditions are met. Contingent consideration may also give the acquirer the right to the return of previously transferred consideration *[IFRS 3 Appendix A]*.

It is not uncommon for the acquirer and the former owners of the acquiree to have different views regarding the value of the acquiree or, if the acquirer's shares are issued as part of the consideration transferred, the value of those shares. Contingent consideration assists in the negotiation of such differences.

For example, contingent consideration could be agreed to where the acquirer needs to pay additional funds if an income target is met for the acquired business within a specified timeframe. In some cases, the acquiree may be required to return a portion of the consideration transferred if a certain income target is not reached. On the other hand, when shares of the acquirer are part of the consideration transferred, the acquirer could be obligated to issue additional shares if their share price does not reach a certain agreed upon price by a specified date.

Classification of Contingent Consideration

The classification of a contingent consideration arrangement is dependent on the settlement terms of the arrangement:

Settlement Terms	Classification *[IAS 32.11]*
Required to be settled in cash or other assets	Financial liability
Required to be settled in a fixed number of the entity's equity instruments	Equity
Required to be settled in a variable number of the entity's equity instruments	Financial liability
Meets the definition of a derivative and provides one party with various options as to how it is settled	Financial liability, unless all of the settlement alternatives result in an equity instrument classification *[IAS 32.26]*

Example: Contingent Consideration

A publicly listed entity, Delta Corp., acquired Zeta Corp. in a business combination. Delta Corp. issued 100,000 of its common shares as consideration to the shareholders of Zeta Corp. In addition, Delta Corp. also agreed to contingent consideration of 10,000 common shares of Delta Corp. if Zeta Corp.'s profit exceeds $1 million for the first 12 months following the acquisition date.

Assessment: The common shares issued by Delta Corp. at the acquisition date are recorded at fair value within equity. The contingent consideration common shares are a fixed number of shares to be issued if Zeta Corp. meets the profit target. As such, the fair value of the contingent consideration will be classified as an equity instrument.

Initial Accounting at Acquisition Date

If contingent consideration is part of a business combination transaction, the acquirer needs to recognize the acquisition-date fair value of the contingent consideration as part of the consideration transferred *[IFRS 3.39]*. The obligation to pay contingent consideration is classified as either a financial liability or equity interest in accordance with IAS 32 *Financial Instruments: Presentation*. If the contingent consideration represents a right to the return of previously transferred consideration, provided that specified conditions in the acquisition agreement are met, it is classified as an asset *[IFRS 3.40]*.

Accounting Subsequent to Acquisition Date

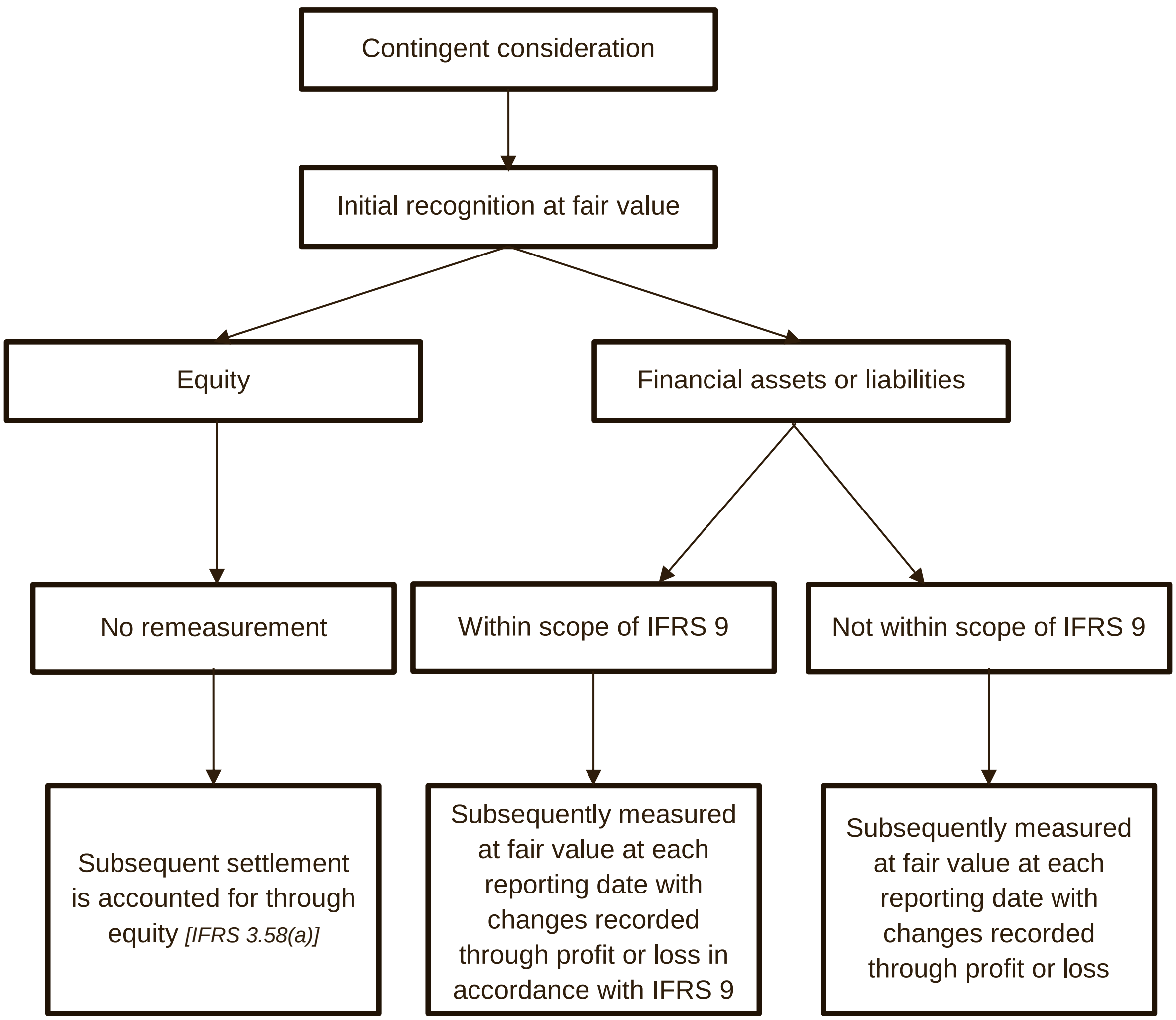
After the acquisition date, the acquirer will have to determine if additional information obtained after that date represents facts and circumstances that existed at the acquisition date. If so, adjustments made to the consideration transferred is recognized as a measurement period adjustment *[IFRS 3.58]*. See the Measurement Period Adjustments section of this guide for more information.

On the other hand, if the information represents events after the acquisition date (e.g., meeting an earnings target, reaching a specified share price, reaching a milestone on a research and development project), the change in the consideration amount would not be considered a measurement period adjustment. Such changes are accounted for as follows:

a) Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.
b) Contingent consideration that is:
   a. Within the scope of IFRS 9 is remeasured at fair value at each reporting date, with the changes in fair value recognized in profit or loss in accordance with IFRS 9; or,
   b. Not within the scope of IFRS 9 is measured at fair value at each reporting date, with any changes in fair value recognized in profit or loss *[IFRS 3.58]*.

Insights

- IFRS 3 requires that changes in the fair value of contingent consideration resulting from events after the acquisition date such as meeting an earnings target, reaching a specified share price, or meeting a milestone on a research and development projects are accounted for based on the classification of the contingent consideration *[IFRS 3.58b(i) and 58b(ii)]*.



Escrow Arrangements

The shares issued under business combinations, in some circumstances, may be restricted by separate agreement between the parties to the business combination (e.g., consideration shares are placed in escrow and scheduled for release at a later date). It must be determined whether the payment of consideration shares placed in escrow are contingent consideration.

IFRS 3 does not provide guidance on whether the payment of escrow shares to the acquiree meets the definition of contingent consideration. However, industry guidance indicates that consideration placed in escrow is not a contingent consideration if the release of the funds is contingent on verifying conditions that existed at the acquisition date.

The escrow share consideration is measured at fair value, which is calculated as sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. In determining the fair value of escrow share consideration, a discount for the passage of time over the deferral period as well as the risk of non-payment should be considered.

However, there is diversity in practice as there is no specific guidance under IFRS 3 or IFRS 13 *Fair Value Measurement* on what would be considered an appropriate fair value. As such, the acquirer must make an accounting policy choice that is consistent with the *Conceptual Framework for Financial Reporting*.

Contingent Payments to Employees or Selling Shareholders

To determine whether a contingent payment arrangement to employees or selling shareholders is contingent consideration in a business combination or a separate transaction that indicates compensation for post-combination services (i.e., remuneration) will depend on the nature of the arrangements.

Understanding the reasons why the acquisition agreement included a provision for contingent payments, who initiated the arrangement and when the parties entered into the arrangement may help in the assessment of the nature of the arrangement *[IFRS 3.B54]*.

The following factors should be considered when it is unclear whether an arrangement is part of the business combination consideration or is a separate transaction *[IFRS 3. B55]:*

Additional Consideration (i.e., indicators for a contingent payment to be a part of the business combination)	Factors	Remuneration (i.e., indicators that the contingent payment represents compensation for post-combination services)
Contingent payment is not impacted by employment termination.	Terms of continuing employment (included in an employment agreement, acquisition agreement or other document)	Arrangement requires an automatic forfeiture of the contingent payment at the employment termination.
Required employment term is shorter than contingent payment period.	Duration of continuing employment	Required employment term coincides with or is longer than the contingent payment period.

Remuneration received other than contingent payments is reasonable compared to other key employees at the entity.	Level of remuneration	Remuneration received other than contingent payments is less than that received by other key employees in the combined entity.
If the per-share contingent payment is the same or similar for shareholders regardless of whether they become the employees of the combined entity.	Incremental payments to employees	Contingent payment received per share by selling shareholders who become employees is more on a per share basis than the contingent payment received by selling shareholders who do not become employees. This indicates that the incremental amount may be remuneration.
The selling shareholders who continue as key employees only owned a small number of the shares in the acquiree and receive the same contingent consideration on a per share basis as all other selling shareholders.	Number of shares owned by the selling shareholders who remain as key employees	The contingent payment may be indicative of a remuneration arrangement if the selling shareholder(s) who owned essentially all shares in the acquiree continue as key employees. In such cases, the contingent payments may represent a profit-sharing arrangement for the post-combination services provided by these employees.
The initial consideration transferred is at the low end of the acquiree valuation range and the contingent formula relates to that valuation approach.	Linkage to the valuation	The contingent payment formula is consistent with prior profit-sharing arrangements.
The contingent payment is determined on the basis of a multiple of earnings and the formula is intended to establish or verify the fair value of the acquiree.	Formula for determining consideration	The contingent payment is determined on a specified percentage of earnings. This indicates that the obligation to employees is a profit-sharing arrangement to remunerate employees for services rendered.
Whether the terms of other agreements (e.g. non-compete agreements, executory contracts, consulting contracts, and property lease agreements) are comparable to market terms and the income tax treatment of contingent payments may indicate whether the transaction is part of the consideration or remuneration. For example, the acquirer may enter into a contract with a significant selling shareholder where the required payments are significantly below market value. This would indicate that some or all of the contingent payment is a separate transaction related to this contract and is recognized separately in the post-combination financial statements.		

The terms of continuing employment is the only conclusive factor when making this assessment, as when the contingent payment is forfeited as a result of employment termination the contingent payment must be recorded as remuneration *[IFRS 3.B55(a)]*. None of the other factors noted above are considered to be conclusive when making this assessment.

Reverse Acquisitions

A reverse acquisition, commonly referred to as a reverse takeover or RTO, occurs when the entity that issues the equity securities (i.e., the legal acquirer) is identified as the acquiree for accounting purposes (i.e., the accounting acquiree) in a business combination. Therefore, the entity whose shares are acquired (i.e. the legal acquiree) needs to be the acquirer for accounting purposes (i.e., the accounting acquirer) for the transaction to qualify as a reverse acquisition *[IFRS 3.B19]*.

A reverse acquisition most commonly occurs when a private entity wants to have its shares publicly traded but does not want to go through the required registration process. The private entity arranges for a public entity to issue shares to the shareholders of the private entity, in exchange for the private entity's shares *[IFRS 3.B19]*. If the public entity issues more shares to the private company's shareholders than were outstanding prior to the issuance of these shares, the former shareholders of the private company end up with a controlling interest in the combined entity.

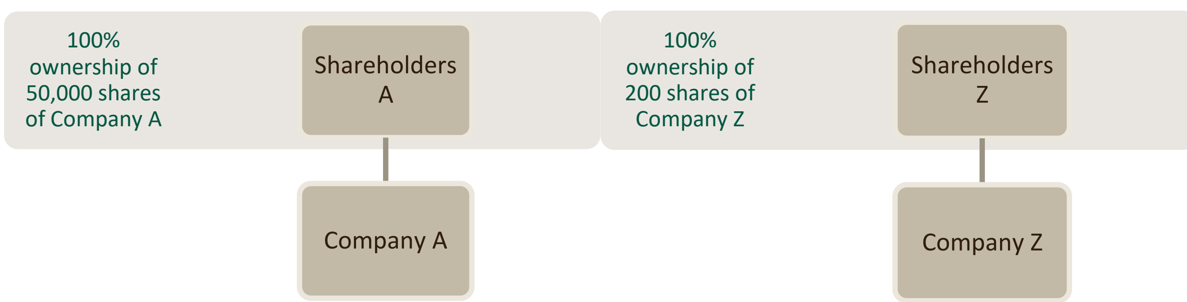
Example of a Reverse Acquisition Arrangement

Company A, an inactive public company with 50,000 outstanding shares (i.e., a shell company), issues 100,000 shares to Company Z's shareholders. In return, Company A receives all of Company Z's outstanding shares. Company Z is a private company.

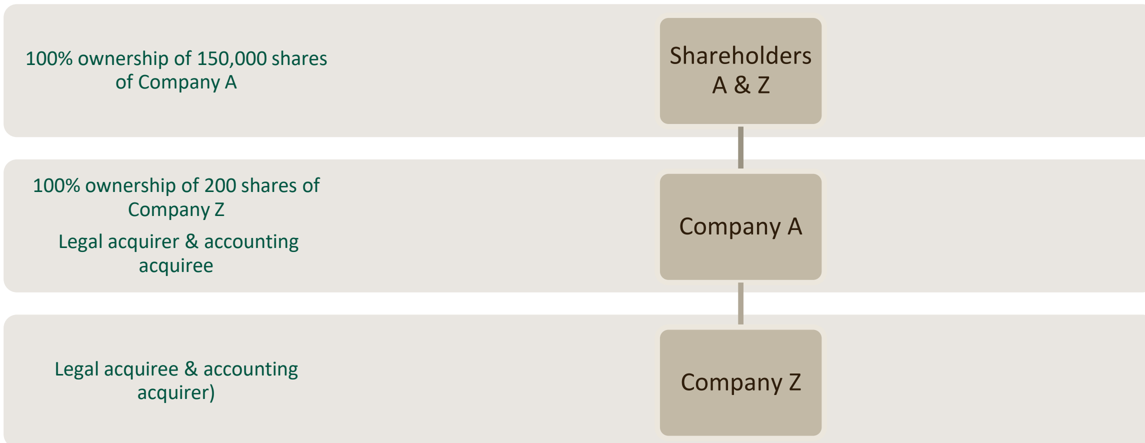
Assessment: In this situation, the former shareholders of Company Z now own approximately 67% (100,000/(50,000 + 100,000) of Company A's outstanding shares. This represents a controlling interest and even though Company Z legally became a subsidiary of Company A, it is identified as the accounting acquirer (legal acquiree). Thus, Company A, the parent, is identified as the accounting acquiree (legal acquirer).

The following shows the organizational charts of the companies before and after the reverse acquisition.

Before



After



For a transaction to be accounted for as a reverse acquisition under IFRS 3, the accounting acquiree must meet the definition of a business, and all of the recognition and measurement principles including the requirement to recognize goodwill, will apply *[IFRS 3.B19]*.

Measuring Consideration

In a reverse acquisition accounted for under IFRS 3, the accounting acquiree issues its shares to the owners of the accounting acquirer. In turn, the implied acquisition-date fair value of the consideration transferred by the accounting acquirer for its interest in the accounting acquiree is based on the number of equity interests the accounting acquirer would have had to issue to give previous shareholders of the accounting acquiree the same percentage equity interest in the resultant combined entity. This fair value is used as the fair value of the consideration transferred. *[IFRS 3.B20]*

Insights

- Where the reverse acquisition involves a publicly-listed shell company, the listed price of those shares is more readily observable and should be used to determine the fair value of the consideration transferred.

Preparation and Presentation of Financial Statements

Subsequent to the reverse acquisition accounted for under IFRS 3, the consolidated financial statements represent the continuation of the financial statements of the legal subsidiary (accounting acquirer); however, they are issued under the name of the legal parent (accounting acquiree) and reflect its capital structure *[IFRS 3.B21]*. The consolidated financial statements must reflect the following:

a) The assets and liabilities of the legal subsidiary (accounting acquirer), recognized and measured at their pre-combination carrying amounts.
b) The assets and liabilities of the legal parent (accounting acquiree), accounted for as the acquired items under the acquisition method in accordance with IFRS 3.

c) The retained earnings and other equity balances of the legal subsidiary (accounting acquirer) before the business combination.
d) The non-controlling interest's proportionate share of the legal subsidiary's (accounting acquirer's) pre-combination carrying amounts of retained earnings and other equity interests. This is discussed in further detail in Non-controlling Interest section below.
e) The amount recognized as issued equity interests in the consolidated financial statements determined as the sum of:
   i) The issued equity interest of the legal subsidiary (accounting acquirer) outstanding immediately before the business combination; and,
   ii) The fair value of the legal parent (accounting acquiree).
f) The equity structure (i.e., the number and type of equity instruments issued) reflects that of the legal parent (accounting acquiree), including the equity interests the legal parent issued to effect the business combination. Therefore, the equity structure of the legal subsidiary (accounting acquirer) is restated using the exchange ratio established in the acquisition agreement to reflect the number of shares of the legal parent (accounting acquiree) issued in the reverse acquisition. Comparative information is also retrospectively adjusted to reflect the legal capital of the legal parent (accounting acquiree) *[IFRS 3.B22]*.

Non-controlling Interest

There may be some owners of the legal subsidiary (accounting acquirer) that do not exchange their equity interests for equity interests of the legal parent (accounting acquiree) in a reverse acquisition. Those owners are considered and treated as a non-controlling interest in the consolidated financial statements. This is due to the fact that these owners only have an interest in the results and net assets of the legal subsidiary (accounting acquirer), but not the results and net assets of the combined entity. On the contrary, even though the legal acquirer is the accounting acquiree, the owners of the legal acquirer have an interest in the results and net assets of the combined entity *[IFRS 3.B25]*.

Since, in a reverse acquisition, the assets and liabilities of the legal subsidiary (accounting acquirer) are measured and recognized in the consolidated financial statements at their pre-combination carrying amounts, the non-controlling interest reflects the non-controlling shareholders' proportionate share in the pre-combination carrying amounts of the legal subsidiary's (accounting acquirer's) net assets *[IFRS 3.B24]*. This is different than other acquisitions where the non-controlling interest is measured at the acquisition-date fair value, not the carrying value.

Earnings Per Share

As discussed above, the equity structure in the consolidated financial statements following a reverse acquisition reflects the equity structure of the legal parent (accounting acquiree), including the equity interests issued by the legal parent (accounting acquiree) to effect the business combination.

The basic earnings per share for each comparative period will be calculated by dividing the profit or loss of the legal subsidiary (accounting acquirer) attributable to ordinary shareholders by the legal subsidiary's (accounting acquirer's) historical weighted average number of ordinary shares outstanding multiplied by the exchange ratio established in the acquisition agreement *[IFRS 3.B27].*

In calculating the weighted average number of ordinary shares outstanding (i.e. the denominator) during the period in which the reverse acquisition occurs:

a. the number of ordinary shares outstanding from the beginning of that period to the acquisition date will be computed on the basis of the weighted average number of ordinary shares of the legal subsidiary (accounting acquirer) outstanding during the period multiplied by the exchange ratio established in the merger agreement; and,
b. the number of ordinary shares outstanding from the acquisition date to the end of that period shall be the actual number of ordinary shares of the legal parent (accounting acquiree) outstanding during that period *[IFRS 3.B26].*

Reverse Acquisition Where the Acquired Entity is Not a Business

The accounting treatment for reverse acquisitions where the acquired entity is not a business was discussed by the IFRS Interpretations Committee in their March 2013 IFRIC Update. They concluded that when the accounting acquiree does not meet the definition of a business under IFRS 3 (e.g. a private entity is acquired by a non-trading public entity in order to become listed on a stock exchange) guidance under IFRS 2 is applied. Such transactions are considered to be an equity-settled share-based payment accounted for in accordance with IFRS 2, where the private company issue shares to a public shell company. The difference between the fair value of the shares deemed to have been issued by the accounting acquirer and the fair value of the accounting acquiree's identifiable net assets is consideration for a service rendered to the accounting acquirer (e.g. the service of obtaining a listing for the private entity), and the amount is recognized as an expense. The difference between the fair value of the shares and the identifiable net assets acquired is not accounted for as a share issuance cost.

Measurement Period Adjustments

In order to apply the acquisition method, an acquirer is required to establish the acquisition date which is the date on which it obtains control of the acquiree. Although an acquisition date is determined, it is not always feasible to complete the measurement of all pertinent factors at exactly that date. Thus, IFRS 3 permits a measurement period.

The measurement period is only used when the initial accounting for a business combination is incomplete by the end of the reporting period that the transaction occurred. This period can **only** be used if there is specific information that the acquirer is seeking to complete their accounting *[IFRS 3.45]*.

Insights

- The measurement period is the period after the acquisition date, during which time the acquirer may adjust the provisional amounts recognized for a business combination. The provisional amounts are only those for which the acquirer was seeking additional information as at the acquisition date.

The measurement period provides the acquirer with a reasonable time to obtain information necessary to identify and measure the components of a business combination.

If the initial accounting for a business combination is incomplete by the end of the reporting period, the acquirer must use provisional amounts in the financial statements for the items for which the accounting is incomplete. During the measurement period, when new information is obtained about facts and circumstances that existed as at the acquisition date and would have affected the measurement of the provisional items, the acquirer will:

a) Adjust the provisional amounts as required; and,
b) Recognize any additional assets or liabilities identified that, if known about at the date of acquisition, would have been recorded *[IFRS 3.45]*.

Insights

- Please note that this guidance does not preclude an acquirer from performing a valuation at the acquisition date. The measurement period is only to be used where the acquirer is unable to obtain necessary information at the measurement date and provisional amounts are only acceptable for those items to which the outstanding information pertains.

The acquirer must consider all pertinent factors when determining whether information obtained after the acquisition date should result in an adjustment. Such factors may include:

i. The date when the additional information is obtained; and,
ii. Whether the acquirer can identify a reason for a change to the provisional amounts *[IFRS 3.47]*.

Insights

- Information that is obtained shortly after the acquisition date is more likely to reflect circumstances that existed at the acquisition date. For example, the sale of an asset to a third party for an amount significantly lower than its provisional fair value is likely an indicator of an overstatement in the provisional amount *[IFRS 3.47]*.

During the measurement period, when adjustments are made to the provisional amounts, they are treated as if they were made at the acquisition date. In other words, comparative information for the prior periods is revised as needed, including making any change in depreciation, amortization or income effects recognized in completing the initial accounting *[IFRS 3.49]*.

The offsetting change made to the item recognized as part of the business combination is made to goodwill. However, it should be noted that sometimes the new information obtained may affect multiple items (i.e., assets and liabilities). In such cases, only the net balance of all adjustments is recorded to goodwill *[IFRS 3.48]*.

The measurement period ends as soon as the acquirer receives the information it was seeking or learns that no more information can be obtained. The measurement period cannot exceed one year from the acquisition date *[IFRS 3.45]*.

Insights

- After the measurement period ends, revisions made to the accounting for a business combination are only made to correct an error in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors [IFRS 3.50]*.

Example – Part 1 - Measurement Period Adjustments – Appraisal That is Incomplete at the Reporting Date

Entity M acquired Entity N on December 31, 2019. The net assets acquired included a patent, for which Entity M engaged an independent valuation expert to determine the fair value as at the acquisition date. The valuation was incomplete when Entity M authorized for issue its financial statements for the year ended December 31, 2019. Entity M recognized a provisional fair value for the patent of $50,000. On June 15, 2020, Entity M received the independent valuation report which estimated the patent's acquisition date fair value to be $60,000.

Is this a measurement period adjustment?

Assessment: The measurement period is the period after the acquisition date, during which time the acquirer may adjust the provisional amounts recognized for a business combination. The provisional amounts are only those for which the acquirer was seeking additional information as at the acquisition date. Since the valuation of the patent was a provisional amount, and the adjustment to this amount was determined within one year of the acquisition date, this is a measurement period adjustment. Entity M is required to retrospectively adjust prior year information for the resulting changes in amortization or other income effects recognized in completing the initial accounting and apply that change against goodwill.

Example - Part 2 - Measurement Period Adjustments – Accounting for an Adjustment Outside the Measurement Period

On the date of acquisition, Entity M did not know that Entity N had been accused of breach of contract by one of its major suppliers. On January 4, 2021, Entity M became aware of the potential breach and asked its legal counsel to evaluate the claim. On March 22, 2021 Entity M's legal counsel concluded that Entity N may have breached the contract and the claim has merit. Entity M determined that it should have recognized a contingent liability of $500,000 as part of the initial accounting for the acquisition.

Is this a measurement period adjustment?

Assessment: This is not a measurement period adjustment. The measurement period cannot exceed one year from the acquisition date. Entity M is required to revise the accounting for a business combination to correct an error in accordance with IAS 8.

Insights

- The assessment of what constitutes a measurement period adjustment must be based on the facts and circumstances applicable to the specific situation being analysed.

Subsequent Measurement

Subsequent measurement for the items recognized during a business combination (e.g. assets acquired, liabilities assumed/incurred, and equity instruments issued) is in accordance with other applicable IFRSs depending on the nature of the item *[IFRS 3.54]*. However, IFRS 3 provides guidance on the subsequent measurement for the following specific items recognized during a business combination:

- Reacquired rights;
- Contingent liabilities recognized as of the acquisition date; and,
- Indemnification assets.

Reacquired Rights

A reacquired right is a right the acquirer reacquires through a business combination, which the acquirer had previously granted to the acquiree to use one or more of the acquirer's recognized or unrecognized assets. Examples include:

- A right to use the acquirer's trade name under a franchise agreement; or
- A right to use the acquirer's technology under a technology license agreement *[IFRS 3.B35]*.

A reacquired right that has been recognized as an intangible asset is amortized over its remaining contractual life (based on the contract in which the right was granted). If the reacquired right is subsequently sold by the acquirer to a third party, the carrying amount of the intangible asset is included in determining the gain or loss on the sale. *[IFRS 3.55]*

Contingent Liabilities Recognized as of the Acquisition Date

After initial recognition and until it is settled, cancelled or expired, the contingent liability is measured by the acquirer at the higher of:

a. The amount that would be recognized in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and,
b. The amount initially recognized less, if appropriate, the cumulative income recognized in accordance with IFRS 15 *Revenue from Contracts with Customers [IFRS 3.56].*

Insights

- This requirement does not apply to contracts accounted for in accordance with IFRS 9 *Financial Instruments [IFRS 3.56].*

Indemnification Assets

Subsequent measurement of indemnification assets is done on the same basis as the related indemnification liability or asset, subject to any contractual limitations on its amount. For an indemnification asset that is not subsequently measured at its fair value, management must assess its collectability. The indemnification asset is derecognized when the asset is collected, sold or the entity otherwise loses the right to it *[IFRS 3.57].*

Disclosure

When a business combination occurs either in the current reporting period, or after the end of the current reporting period but before the financial statements are authorized for issue, the acquirer must disclose information that enables the users of its financial statements to evaluate the nature and financial effect of the business combination. This disclosure must include *[IFRS 3.B64 – B67]*:

General Business Combination Information
☐ The name and a description of the acquiree ☐ The acquisition date ☐ The percentage of voting equity interest acquired ☐ The primary reasons for the business combination and a description of how the acquired obtained control of the acquiree ☐ The amount recognized as of the acquisition date for each major class of assets acquired and liabilities assumed

- ☐ The amounts of revenue and profit or loss of the acquiree since the acquisition date included in the consolidated statement of comprehensive income for the reporting period
- ☐ The revenue and profit or loss of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period
- ☐ If the acquisition date is after the end of the reporting period but before the financial statements are authorized for issue, disclose the information required under IFRS 3. If the initial accounting for the business combination is incomplete at the date that the financial statements are authorized for issue, describe:
  - ☐ Which disclosures could not be made
  - ☐ The reasons why they could not be made

Goodwill

- ☐ A qualitative description of the factors that make up the goodwill recognized, such as expected synergies from combining operations of the acquiree and the acquirer, intangible assets that do not qualify for separate recognition or other factors
- ☐ The total amount of goodwill that is expected to be deductible for tax purposes

Bargain Purchase

- ☐ The amount of any gain recognized and the line item in the statement of comprehensive income in which the gain is recognized; and,
- ☐ A description of the reasons why the transaction resulted in a gain.

Consideration

- ☐ The acquisition date fair value of the total consideration transferred and the acquisition date fair value of each major class of consideration, such as:
  - ☐ Cash;
  - ☐ Other tangible or intangible assets, including a business or subsidiary of the acquirer;
  - ☐ Liabilities incurred, for example, a liability for contingent consideration; and,
  - ☐ Equity interests of the acquirer, including the number of the instruments or interests issued or issuable and the method of measuring the fair value of those instruments or interests.

Contingent Consideration and Indemnification Assets

- ☐ The amount recognized as of the acquisition date;
- ☐ A description of the arrangement and the basis for determining the amount of the payment; and,
- ☐ An estimate of the range of outcomes (undiscounted) or, if a range cannot be estimated, that fact and the reasons why a range cannot be estimated. If the maximum amount of the payment is unlimited, the acquirer must disclose that fact.

Acquired Receivables

- ☐ The fair value of the receivables;
- ☐ The gross contractual amounts receivable; and,
- ☐ The best estimate at the acquisition date of the contractual cash flows not expected to be collected

Contingent Liabilities

- ☐ For each contingent liability recognized, the information required in paragraph 85 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.*
- ☐ If a contingent liability is not recognized because its fair value cannot be measured reliably, disclose:
  - ☐ The information required in paragraph 86 of IAS 37; and,
  - ☐ The reasons why the liability cannot be measured reliably.

Separate Transactions

- ☐ A description of each transaction;
- ☐ How the acquirer accounted for each transaction;
- ☐ The amounts recognized for each transaction and the line item in the financial statements in which each amount is recognized; and,
- ☐ If the transaction is the effective settlement of pre-existing relationship, the method used to determine the settlement amount

Acquisition-Related Costs

- ☐ The amount of acquisition related costs and, separately, the amount of those costs recognized as an expense and the line item or items in the statement of comprehensive income in which those expenses are recognized

- ☐ The amount of any issue costs not recognized as an expense and how they were recognized

Non-Controlling Interests

- ☐ The amount of non-controlling interest in the acquiree recognized at the acquisition date and the measurement basis for that amount; and,
- ☐ The amount of non-controlling interest in an acquiree measured at fair value, the valuation technique(s) and significant inputs used to measure that value

Business Combinations Achieved in Stages

- ☐ The acquisition-date fair value of the equity interest in the acquiree held by the acquirer immediately before the acquisition date; and,
- ☐ The amount of any gain or loss recognized as a result of remeasuring to fair value the equity interest in the acquiree held by the acquirer before the business combination and the line item in the statement of comprehensive income in which that gain or loss is recognized

Current Period Effect of Business Combinations that Occurred in Previous Reporting Periods

- ☐ If the initial accounting for a business combination is incomplete for particular assets, liabilities, non-controlling interests or items of consideration and the amount recognized in the financial statements for the business combination thus have been determined provisionally:
  - ☐ The reasons why the initial accounting for the business combination is incomplete;
  - ☐ The assets, liabilities, equity interests or items of consideration for which the initial accounting is incomplete; and,
  - ☐ The nature and amount of any measurement period adjustments recognized during the reporting period.
- ☐ For each reporting period after the acquisition date until the entity collects, sells or otherwise loses the right to a contingent consideration asset, or until the entity settles a contingent consideration liability or the liability is cancelled or expires:
  - ☐ Any changes in the recognized amounts, including any differences arising upon settlement;
  - ☐ Any changes in the range of outcomes (undiscounted) and the reasons for those changes; and,
  - ☐ The valuation techniques and key model inputs used to measure contingent consideration
- ☐ For contingent liabilities recognized in a business combination, the acquirer should disclose the information required in paragraph 84 of IAS 37 for each class of provision
- ☐ A reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period showing separately:
  - ☐ The gross amount and accumulated impairment losses at the beginning of the reporting period
  - ☐ Additional goodwill recognized during the reporting period, except goodwill included in a disposal group that, on acquisition, meets the criteria to be classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
  - ☐ Adjustments resulting from the subsequent recognition of deferred tax assets during the reporting period
  - ☐ Goodwill included in a disposal group classified as held for sale and goodwill derecognized during the reporting period without having previously been included in a disposal group classified as held for sale
  - ☐ Impairment losses recognized during the reporting period in accordance with IAS 36
  - ☐ Net exchange rate differences arising during the reporting period in accordance with IAS 21
  - ☐ Any other changes in the carrying amount during the reporting period
  - ☐ The gross amount and accumulated impairment losses at the end of the reporting period
- ☐ The amount and an explanation of any gain or loss recognized in the current reporting period that both:
  - ☐ Relates to the identifiable assets acquired or liabilities assumed in a business combination that was effected in the current or previous reporting period; and,
  - ☐ Is of such size, nature or incidence that disclosure is relevant to understanding the combined entity's financial statements.

Resources

External Resources

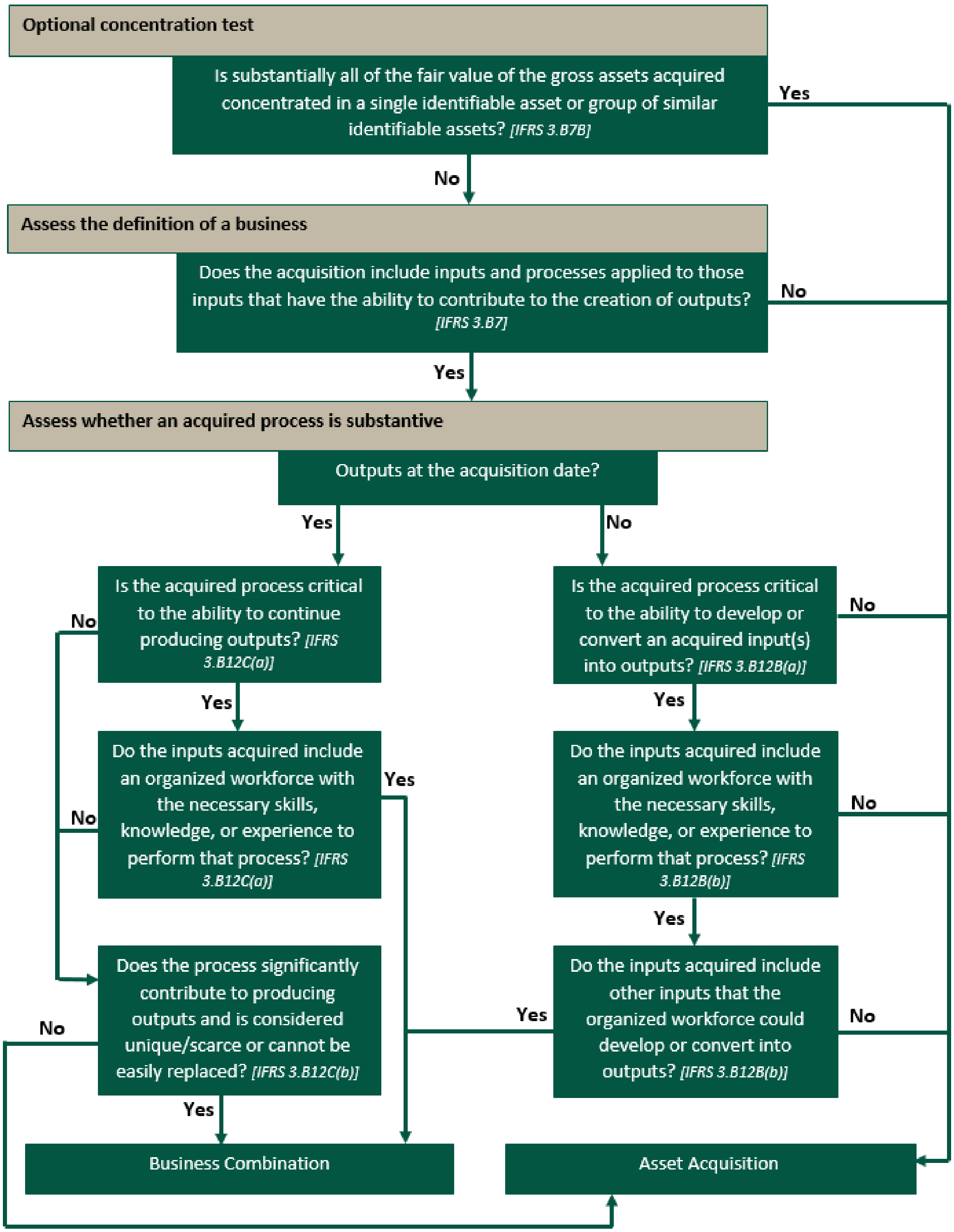
- **CPA Canada Handbook – Accounting – Part I IFRS Standards**: IFRS 3 *Business Combinations*
- **IASB IFRS 3 project summary** - click here
- **IASB article: IASB amends definition of business in IFRS Standard on business combinations** – click here
- **IFRS Discussion Group Report – September 13, 2016** – Transaction Price Allocation – click here
- **IFRS Discussion Group Report – January 10, 2019** – Definition of a Business – click here
- **IFRS Discussion Group Report – September 25, 2019 –** Application Issues from an Asset Acquisition – click here
- **IFRIC Update: Accounting for Reverse Acquisitions That do Not Constitute a Business** – click here
- **IFRS Interpretations Committee – IFRIC Update – March 2013** – Accounting for reverse acquisitions that do not constitute a business – click here
- **IFRS Interpretations Committee Meeting Staff Paper – June 2017** – Acquisition of a group of assets – click here
- **CPA Canada Viewpoints:** Asset Acquisition versus Business Combination (Oil and Gas) – click here
- **CPA Canada Viewpoints:** Asset Acquisition versus Business Combination (Mining) – click here
- **Ontario Securities Commission:** Staff Notice 51-728 – click here

Other MNP Technical Guidance

- **IFRS 3 *Business Combinations Snapshot* -** click here
- **Alert: Amended Definition of a Business in IFRS 3 Business Combinations –** click here

Appendix A: Summary Flowchart

The following flowchart shall assist with the decision making of whether a transaction is a business combination or an asset acquisition:



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